"Private Finance Initiative: Benefiting from the UK Expertise"

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Private Finance Iniative: Benefiting from the UK Experience

ABSTRACT

During the past the decades the British Government has sought to find ways to engage the private sector in the provision of public services. From privatisation throughout to competitive tendering, the UK has been in the centre of a continous procees of modernising public services. Pressure on the public finances and the need of keeping high investment levels led to the evolution of Private Finance Iniative.

Private Finance Initiative is a partnership formed between the public and private sectors aiming at providing traditional public services using private sector's management skills, expertise and finance.

Throughout the development of its PPP/PFI programme the UK has gained valuable experience, it has learnt important lessons and realised significant benefits.

A number of countries around the world have been monitoring UK's success and are currently preparing to introduce or they are already developing their own programme. However, the PFI concept is quite complex and its proper adjustment to those countries needs and specificities is essential.

There is unrivalled PPP expertise in UK's public and private sectors that foreign countries seek to access. Thus, quite a number a number of foreign delegations visit UK specialists from both sectors in order to learn more about this new multi-disciplinary environment.

This report examines the scale, the structure and potential ways of improving this process of exporting PPP/PFI further. It attempts to capture the implicit policy advice that foreign governments receive from the UK experts in order to run a successful PPP programme. There are key drivers of Value for Money and critical success factors that foreign officials need to identify and pay special attention to, in order to avoid potential failures, and thus, realise and take advantage of the benefits and opportunities that the programme offers.

KEYWORDS — Private Finance Initiative, PPP Export Advisory Group, Foreign Delegations, Value for Money, Critical Success Factors

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CHAPTER 1

INTRODUCTION

1.1 The Concept of PPP/PFI

The Private Finance Initiative is a recent development in the UK, which has been the location for a series of innovations in public sector management, in which private sector organisations, Design, Build, Finance and Operate assets to deliver a service to public sector clients. The Private Finance Initiative (PFI) was launched in the UK in 1992 and soon became mandatory (HM Treasury, 1995) that all capital projects, in the public sector, that require Treasury approval, should explore private finance options, even though not for long, as it was abolished in 1997 by the new Labour Government. UK Government initially considered PFI as a means of getting infrastructure costs off the public balance sheet, keeping investment levels up, cutting public spending and avoiding the constraints of public sector borrowing limits. After a period of applying and experiencing PFI, the emphasis has shifted and it has become apparent that the impact on government expenditure and borrowing is much less significant than at first supposed. PFI are currently being seen as a way of introducing the private sector's management skills and expertise into the provision of traditional public sector services and facilities (HM Treasury, 2003; NAO, 2001). According to government policy statements PFI is Government's main instrument for delivering *higher quality* and *cost-effective* public services, while transferring significant risks in the private sector.

The evolution of PFI and the way in which the UK has experienced this relatively new procurement route will be examined and analysed more thoroughly in the third chapter of this report.

This first chapter will attempt to introduce the reasons for conducting this report and try to state some questions, to set its aims and objectives, as well as the methodology that will be followed in order to achieve these aims and reach to useful conclusions. This chapter also refers to the research's possible outcomes and its value, and it will, finally, outline the structure of this report and describe how the different parts of this report are interrelated.

1.2 Identification of the Problem

After extensive research on PFI in its first years of application it has become apparent that in specific sectors, services or projects, the scheme could be characterised as completely successful, delivering Value For Money and outweighing traditional procurement methods. Private firms managed to bear the risks that were transferred from the public sector, it managed to reduce costs and keep quality levels high, thus, deliver Value-for-Money projects. In other cases, though, there were delays, higher relative costs, poor quality and fewer opportunities for innovation.

These differentiations depend mainly on the contractibility of the service, the legal, financial, political and social constraints, both of which obviously vary hugely between different countries. But these differentiations can be tackled with proper advice. This is where the UK can help with its unparalleled expertise in the public and private sector. And this is the reason why there is an increasing trend in foreign countries seeking to access UK's expertise in PPP. Therefore, the main issue in this report, what it is thought that will add value, is to demonstrate the scale, the structure and ways of improving this process of exporting PPP/PFI further, and to capture the implicit policy advice that foreign governments receive from the UK experts in order to run a successful PPP programme. There are key drivers of Value for Money and critical success factors that foreign officials need to identify and pay special attention to, in order to avoid potential failures, and thus, realise and take advantage of the benefits and opportunities that the programme offers.

1.3 Research Aims and Objectives

The PFI scheme has enthusiastically been adopted in many countries, whereas many more prepare to set the appropriate legal, political, economic and organizational context to apply this new procurement route.

Over the last 13 years UK PFI has generated a large experience (codified, formal or published) body of guidance literature. There is also a small industry of professional PFI advisors, operating mainly at the project-specific level.

However, it seems clear that foreign governments and agencies also receive substantial amount of implicit policy advice from those UK experts whom they meet on visits to UK

The aim of this research is to add to our understanding of the content of that implicit and informal advice that foreign officials receive, in order to analyse and set the appropriate context for the introduction of PFI in a different environment, as well as to provide a clearer view on the whole process of exporting PFI, which takes place. It is hypothesized that a relatively small number of UK experts receive most of the visiting delegations. The main idea is, and objectives are:

1) To find out whom the main informal advise-givers are, and why these individuals are so often approached.
2) To get some sense of the total scale of this process of visitor advising, of the backgrounds, positions of the visitors.
3) To find out the kind of questions visitors frequently ask, and what their preconceptions of what are the main issues are.
4) To find out the kind of informal advice they receive from those they meet.
5) To examine the possible value of transforming some of this implicit knowledge and informal advice into something more formal and explicit, thus
   a) each expert to see how their advice and views differ from those of the others
   b) each expert to reduce the future demands on their time and increase the impact of time spent on this activity
6) To allow each UK expert who contributes to this study to benefit by being sent a copy of the final report, and thus each get some additional personal insights into (1), (2), (3), (4) and (5a) above.
7) To prepare the ground for a following study and research which would ask former visitors about their perceptions of the value and impact of the informal advice they received.

1.4 Methodology

This report will use a more empirical and qualitative method, interviewing people, from the public and the private sector side, that are regularly approached by visitors and are, thus, a main source of implicit, and possibly, explicit advise. It will engage people that have been long involved in a series of PFI projects and experienced a variety of processes and cases, facing different situations and problems, under different circumstances, in order to obtain a more rounded view on UK experience. The complexity of the construction process is such that cannot be framed and standardised, so experience is sometimes vital in order to reach the desirable outcome. Thus, experience and lessons from the application of PFI in the UK can be a reference point when exported elsewhere in the world.

The first step in order to conduct this research will be to set the appropriate theoretical background. Thus, review formal, published policy advice on PFI, and study agencies' and departments' reports on UK experience and lessons learned (IFSL, BCCB, NAO, OGC, PUK, 4Ps and HM Treasury).

The second step will be to identify key experts and advise-givers, either from the public or private sector side, who receive most of the visits from foreign officials, and obtain their consent to be interviewed.

The next step will consist of the interviews with the key players in the process of exporting PPP/PFI. It is hoped that by using interviews the respondents will have the opportunity to include in their answers as much information and data as possible, personal views and opinions, their thoughts and understanding of issues and processes, thus, to give a wider picture on the specific subject.

Finally, the last stage will try to fulfil the research's aims and objectives that have been set above, by analysing and concluding on the evidence that have been gathered throughout the interviews, and therefore add some value on the overall process of exporting PPP/PFI.

1.5 Report Outline

The first chapter identified the research question and analysed its importance and significance to those UK experts who mainly receive foreign delegations' enquiries. It introduced this report's scope, its aims and objectives as well as its value for these officials and experts if these are fulfilled. It, finally, set and reasoned the methodology that will be followed in order to deliver better results and reach to useful conclusions. This introduction, thus, is thought to have set the proper foundations for the analysis and investigation that follow in the fore coming chapters to take place.

The second chapter aims at providing an overview of the process of exporting PFI, as well as adding to our understanding of the way in which foreign governments approach UK public or private sector officials in their attempt to access UK expertise in Public Private Partnerships. It is hoped that the interviews with the key players in the process of exporting PFI will provide significant and substantial findings and evidence, which will help all those engaged in this research to draw useful conclusions and recommend possible solutions.

The next part will be disengaged from the analysis of the process of exporting PFI and will focus on the content of the meetings between UK specialist and foreign officials. In specific, it will investigate the kind of informal and implicit advice that visitors receive from UK experts and will attempt to transform this into something more formal and explicit. Thus, by combining this advice with a wide range of already published guidance and literature on PPP/PFI, the third chapter will provide a brief guide on the issues that are considered to be substantial and crucial for a successful PPP programme.

Finally, the last chapter will summarise the report's findings, its conclusions and recommendations, as they have been drawn during the analysis, as well as to propose future research and studies.

CHAPTER 2

THE PROCESS OF EXPORTING PPP/PFI

2.1 Introduction

The Public Private Partnerships and Private Finance Initiative concepts have attracted worldwide interest and foreign governments have been very keen to learn more about the UK model and understand how it has been so successfully developed. The UK has managed to develop an unparalleled programme and its private and public sectors' expertise seem to be able to be applied anywhere in the world.

There is a continuously increasing trend, during the past 5 or 6 years, in the number of countries that have introduced or have shown interest to introduce PPP/PFI as a more effective and efficient means of delivering public services. More and more foreign officials visit the UK to meet with public or private sector advisors to get a sense of the appropriate way to set up a successful PPP programme in their country, applied to its specific legal, financial, political and socio-economic environment, and to receive guidance on the most significant issues of a PPP/PFI scheme that the UK has learned as lessons and developed as experience throughout the years.

This part of the report aims at providing evidence and information, after the interviews with the advisors that receive most of the foreign delegations and are considered to be the key players in this process of exporting PPP/PFI, on all these people that participate in this process, on the organizations they represent and their background, and on the scale, sequence and structure of the meetings. Finally, it is hoped that the conclusions that will be drawn from the analysis and the recommendations of the people that participated in this research, will be of some value and will give additional insights to all those engaged in the process of advice-giving .

2.2 The Role of the UK Experts

The following organizations or government departments have been identified as those who play a pivotal role in helping foreign governments to access UK expertise in PPP/PFI. Thus, in order to identify and analyse in the fore coming paragraphs their specific and uniquely significant role as regards the promotion of PPP, it is imperative to have a clear idea of their wider role as public or private sector organizations within the United Kingdom.

2.2.1 The PPP Export Advisory Group

The PPP Export advisory Group is the UK Government's approved contact body for all queries relating to PPP and specifically for those overseas Governments (at Central, Regional and Municipal level) wishing to learn more of the UK's expertise in Public Private Partnerships. As such it is responsible for drafting the UK Government's international PPP Export strategy. (see Table 1) The principle members of the Group are UK Trade and Investment, which represents the Government in the group, and their "private sector partners", International Financial Services London and British Consultants and Construction Bureau. Other member of the group include leading practitioners in the banking, legal, advisory, accounting and risk management fields together with government bodies such as Partnerships UK, National Audit Office, HM Treasury and the Department of Health. (IFSL, 2002, UKTI 2004) According to the UK Trade and Investment (2004) the PPP Export Advisory Group has been established to help interested parties to gain access to the UK's unrivalled expertise in PPP. It can provide guidance which can comprehensively cover various aspects of PPP/PFI to any foreign government officials and help them come in touch with their UK counterparts.

TABLE 1 PPP EXPORT ADVISORY GROUP

"The Export Advisory Group is not really about meeting people as they come in. It's really about making sure that there are government resources allocated to deal with ongoing programmes. So, there is a certain amount of government money which means we can fly government experts overseas for instance. And it's a matter of that Group's job to really look at things like....is Austria a market we should be doing more in... rather than who's going to meet the Austrian Finance Minister when he comes....But also much more I think, all these EU green paper staff, anything to do with the EU and the rest of the world; World Bank etc. It's a bit higher level strategic Group. The individual BCCB, IFSL groups working together, they are... Yes, usually the first contacts."

Source: Interview with IFSL and BCCB, 27/06/05

As far as the principle members are concerned, IFSL's job (see Table 2) is to promote the City of London skills to the world; it's not to promote its members. The IFSL group consists of financial services practitioners, bankers, lawyers, specialist advisers, insurance people and also government people. BCCB (Table 3) is also a membership organization, with quite similar members, but it covers the construction membership of engineers, surveyors etc. But it is an enormously wide range of consultants. (Interview with IFSL and BCCB, 27/06/05)

These are organizations paid for by its members to locate and gain advantage overseas. So, "the organization represents all its members, but the objective of people joining is to network and get work. "

BCCB and IFSL have some members in common and some working in the same areas, but broadly the main difference between IFSL and BCCB is that IFSL's members tend to be more interested in the upfront working for government policy staff, where BCCB tends to be more interested in once the projects are coming on straight up. And there firms in both organizations that do both.

The two groups got together at quite an early stage of PPP, because they had started to receive enquiries from other countries; enquiries that largely came from British Embassies, as it will be discussed in the following paragraphs. The group was set up primarily because the British Government had no real intention to help foreign governments to access UK expertise. However, UK Trade & Investment, joined in, as well, offering a "Government face" to the Group. (Table4)

TABLE 2 International Financial Services London

International Financial Services London is a private sector and membership organisation, funded by its Members, the Bank of England and the Corporation of London, the public authority for London's financial centre. IFSL's origins lie in the Committee on Invisible Exports set up in 1968 by the Bank of England. It was reconstituted in 1986 as an incorporated not-for-profit company limited by guarantee. IFSL has 35 years experience of successfully promoting the UK based financial and supporting professional services industry throughout the world, helping them to develop commercial opportunities. It arranges seminars and conferences worldwide, meetings with senior representatives of foreign governments, and briefings for businessmen, journalists and diplomats.

Membership is drawn from across the spectrum of UK's financial and related business services including trade and professional associations, exchanges, the Bank of England, the Corporation of London and leading international financial service companies that are based in London. While not a UK Government organisation IFSL works in partnership with Government departments and national organisations, including UK Trade and Investment, the Department of Trade and Industry, HM Treasury, the Foreign and Commonwealth Office and the Office for National Statistics.

IFSL has also combined its role in indicating UK's stance in international financial markets and highlighting the contribution of financial services to the UK economy, with information and research, by conducting a series of reports in financial sector activities and other major publications.

Finally, "IFSL works for the removal of barriers to trade in the global market for financial services. Through its Liberalisation of Trade in Services (LOTIS) Committee and its wider trade policy work, IFSL is engaged in major initiatives to help ease regulatory and other constraints, providing the link between the technical expertise of the private sector and the UK government political negotiators. IFSL also works with governments and other organisations bilaterally on barriers in individual countries."

Regarding its role in the promotion of PPP/PFI IFSL works closely with UK Trade & Investment and other Government departments and with the British Consultants and Construction Bureau in the organization of events at home and overseas and advice "tailored to meet the needs of overseas governments and companies", which are keen to access UK private and public sector expertise in PPP.

Sources: UKTI, 2004, IFSL, 2003, IFSL, 2002, www.ifsl.org.uk

TABLE 3 British Consultants and Construction Bureau

BCCB is the leading UK trade association for the export of services, founded in 1965 as the British Overseas Engineering Services Bureau. Its members, around 280 companies, which range from large consultants to a wide variety of other smaller consulting companies, work in a wide variety of sectors and disciplines and have a common interest in promoting and selling their skills and expertise abroad. BCCB members are UK advisors and consultants capable of providing the most complete and sophisticated services in the world. The advisory expertise within BCCB played a significant role in the commercialization and privatisation of much of the UK's infrastructure.

The role of BCCB is the promotion of all sectors of British professional services and construction and to help members win and successfully complete business overseas. Its principal activities to achieve this are: First, by organising trade missions, specialised training courses, briefing meetings, seminars, visits and networking not only with leading overseas trade and political delegations, but with potential clients and between members as well; both at home and overseas. After many years of operating in an international environment BCCB has a well earned reputation for rapid and highly efficient service to members, and has developed an extensive network of high level contacts.

Secondly, by lobbying the British and other governments, as well as International Financing Institutions on issues that affect the competitiveness of its members internationally;

Thirdly, by solving specific problems for member companies: Its experience, expertise and knowledge of foreign markets can assist its members with issues such as debt recovery, identifying potential overseas partners for consortia through its links with foreign consulting organisations and providing advice on specific countries and sectors;

BCCB also promotes its members interests by organising training programmes aiming at improvements in their capability to successfully design, bid and deliver business overseas.

Finally, BCCB's wide ranging market intelligence helps to raise awareness of members' profiles through media coverage in the national and trade press, as well as to disseminate leads for potential business across a wide range of sectors and disciplines in almost every country in the world.

Regarding its role in exporting PPP/PFI BCCB members are active internationally helping foreign governments to access UK experience and set up and deliver PPP solutions. BCCB works with UK Trade & Investment and IFSL in meeting the continuously increasing international demand for information on the UK approach on PPP. Successful PPP projects need many skills including Facilities Management and Outsourcing, as well as legal, financial, banking, and insurance expertise. BCCB brings the best of UK based contracting, facilities management and providers of hardware and other services relating to the operation of long-term PPP projects.

Sources: BCCB 2004, UKTI, 2004, www.bccb.org.uk

The group's primary motive is "to promote best practice, because there is a lot of very bad practice being promoted in the world by people who have never really done it." Their objective is to help foreign governments and private sectors to obtain the appropriate skills and resources, so that they might possibly have the chance of succeeding in setting up a serious PPP programme. Detailed information on the role of the principle members of the PPP Export Advisory Group is provided in Tables 2 and 3. (Interview with IFSL and BCCB, 27/06/05)

TABLE 4 UK Trade & Investment

UK Trade & Investment, previously known as Trade Partners UK and Invest UK, both part of British Trade International, is the Government organisation that supports companies in the UK trading internationally, as well as overseas enterprises seeking to locate in the UK. It has international trade teams active in the UK's Embassies, British High Commissions and Consulates world-wide.

UKTI's role is to assist companies in realising their international business potential through knowledge transfer, and on-going partnership support. Its position within Government, in-depth knowledge of UK regional business and a global network make UKTI a strategic partner. It can provide advice tailored to meet any company's, from the UK or overseas, individual needs, helping them to build their international business success.

As regards UKTI's role in the PPP/PFI sector it works in partnership other government departments and experts to deliver advice and help meet the international demand for information on the UK's PPP experience from overseas government.

Source: UKTI, 2004, www.uktradeinvest.gov.uk

2.2.2 Public Private Partnerships Programme (4Ps)

4Ps is the local government project procurement agency. It is the company set up and funded by local government to lead the provision of best practice, to provide practical support, advice, guidance and skills development to all local authorities in England and Wales and to enable them to improve their procurement capability, particularly for large projects and through partnership structures. This includes PFI schemes, strategic service partnerships and all other forms of partnership working.

Public Private Partnerships Programme have an extensive experience and expertise in developing, procuring and delivering large, high risk, complex projects. 4Ps offer comprehensive on-going support to local authorities, including hands-on project support, Gateways Reviews, skills development and procurement guidance in the form of procurement packs, case studies and extranets. (UKTI, 2004, www.4Ps.gov.uk)

2.2.3 National Audit Office (NAO)

The National Audit Office scrutinises public spending on behalf of Parliament. It is independent of Government. NAO audits the accounts of all central government departments and agencies, as well as a wide range of other public bodies, and reports to Parliament on the economy, efficiency and effectiveness with which they have spent public money. NAO's mission is to promote the highest standards in financial management and reporting, the proper conduct of public business and beneficial change in the provision of public services.

NAO's role includes Financial and Value for Money Auditing. As far as the first is concerned, the Comptroller and Auditor General is required to form and issue a qualified opinion on the accounts, as to whether any misstatements, irregularities or other significant matters have been identified, as well as to confirm whether all the transactions in the accounts have the appropriate Parliamentary authority. Such reports may be considered by the Committee of Public Accounts of the House of Commons.

NAO also reports each year to Parliament on the Value for Money with which Government departments and other public bodies have spent their resources. The NAO examines and reports on the economy (minimising the cost of resources used or required - spending less), efficiency (the relationship between the output from goods or services and the resources to produce them - spending well) and effectiveness (the relationship between the intended and actual results of public spending - spending wisely.) of public spending.

The NAO has, finally, responded positively to new innovations in public management. It has undertaken an extensive programme of work PFI projects. NAO's responsibilities include reporting on the value for money of PPP deals and on cross-cutting issues, as well as contributing to analysis and guidance and assisting public sector bodies. (UKTI, 2004, www.nao.org.uk)

2.2.4 Partnerships UK (PUK)

Partnerships UK (PUK), formed in 2000 out of HM Treasury, is a joint venture that bridges the gap between the public and private sectors, with a majority stake held by the private sector.It has been promoted by the UK Government to take forward and expand the work of the former Treasury Task Force in developing PPP/PFI. It offers a blend of public and private sector expertise and experience in the development and delivery of numerous PFI and PPP projects.

Partnerships UK, which is a Public Private Partnership itself, works solely with and for the public sector, and has as a mission "to support and accelerate the delivery of infrastructure renewal, high quality public services and the efficient use of public assets through better and stronger partnerships between the public and private sectors." The success of PUK is considered as fundamental to the public sector's investment and modernisation programmes, as it develops new and innovative ways of assisting to deliver the Government's agenda in key areas including health, education, defence, accommodation, transport, environment, criminal justice and IT.

PUK's role (see also Table 5) is also to provide knowledge, advice and expertise to support the delivery of better public services and infrastructure programmes, either in project evaluation, implementation or operational phase of PPP/PFI. PUK, in addition, supports Government to develop PFI/PPP policy in areas such as contract standardisation and best practice. It helps public bodies to turn their under-utilised assets and innovative ideas into business and joint venture opportunities. Moreover, PUK is dedicated in supplying public bodies with senior strategic support, in sharing responsibility for delivering successful

PFI/PPP solutions, from the appointment and management of advisers to the scoping, development, troubleshooting and negotiation of value for money projects. Finally, Partnerships UK work in partnership with all Government bodies at central and local level. It is available to the entire UK portfolio of PFI/PPP projects through its Help Desk and provides intensive support to individual projects, or programmes such as Partnerships for Health and Partnerships for Schools. (UKTI, 2004, www.partnershipsuk.org.uk)

TABLE 5 Partnerships UK

In very broad terms there used to be 3 bodies involved in policy implementation of PPP programme named the Treasury, PUK and OGC. OGC is no longer involved in the detailed implementation side of PPP; they are the No1 body for overall UK procurement. PFI's policy side, as it is only one method of procurement, is really handled by the Treasury, by its Private Finance Unit and its implementation side is eventually PUK's responsibility. A PUK specialist stated:

"Within that role we have sort of two hats. One is the policeman's hat in the sense that we are tasked by the Treasury to implement various ways, in which we ensure the quality of PPP. We also have the project review group where we do the review of various projects. We make our recommendations, we don't have some kind of power; we just make our recommendations to the project review group who then takes the decisions. We also do a lot of contract standardization work, and we also do interrogations to people who want to depart from standard documents, where we are asked to decide after these interrogation whether this is unacceptable or not.

And then we have this sort of friend role which is where we assist procuring authorities. They usually ask us to help to develop a project right through to be fit for market. Through to our helpdesk we are available to be consulted by any member of the public sector at any point at any stage of the PPP/PFI procuring process. So, that is the supporting role that we do.

Now we do home a sort of 3rd role, which is one of the areas where we tend to get involved inevitably, is this overseas work..."

Source: Interview with Partnerships UK, 05/07/05)

2.3 Foreign Officials, the Scale and the Sequence of the Meetings

After identifying the wider role of the private or pubic sector bodies in the provision of professional services or within the Government, and a brief correlation with their role in the development, implementation and support of the PPP/PFI programme in the UK, the next paragraphs of this report will examine each organisation's input in the process of assisting foreign governments in realising, adopting and implementing the PPP/PFI concept, while describing and analysing this process itself.

As already discussed in the introduction of this research, there is an increasing trend in the number of Governments that have expressed an interest in PPP/PFI; either for general information or technical advice on how to introduce these schemes in their country.

TABLE 6: Worldwide Interest

1999	**First Interest: The Swiss Government**
2000	**Expressed Interest in a Number of Key Areas, like: South Africa, Netherlands, Spain, Italy Portugal, Australia, Canada and Ireland.** **Focus on EU accession countries : Hungary, Poland, Bulgaria, Romania& Czech Republic**
Today	**Around 80-85 countries look at PPP**

(Source : Interviews IFSL&BCCB, 27/06/05)

As IFSL and BCCB experts report, (Table 6) it was in 1999 the first time that there was an expression of interest from a foreign government, even thought, quite surprisingly, they still have not shown any progress. In the early 2000, a lot of interest was expressed from a number of key areas; countries that now run their PPP programmes, like South Africa, Netherlands, Spain, Italy Portugal, Australia, Canada and Ireland. But they state that most of the interest focused in the Eastern Europe; Hungary, Poland, Bulgaria, Romania and Czech Republic. The first big seminars that were run overseas were in Hungary, and the

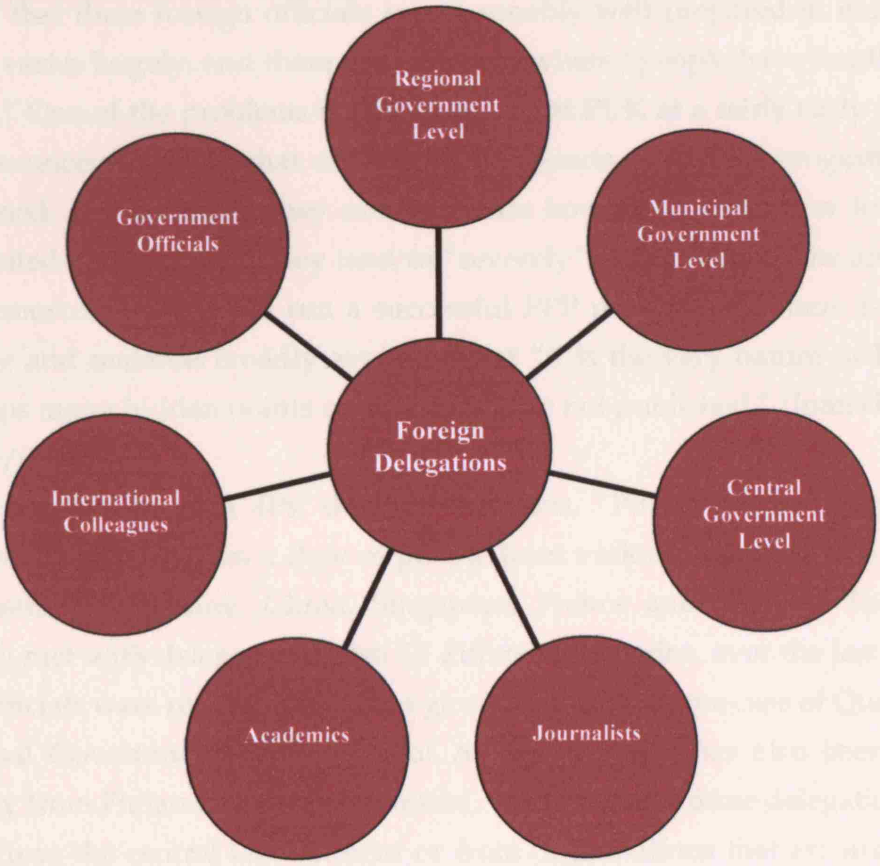
Czech Republic. Over the years this number increased, probably during the last 18 months to 2 years that growth has really accelerated. Hence, IFSL and BCCB refer to somewhere 80-85 countries that are currently looking at UK's experience on PPP. (Interview with IFSL&BCCB, 27/06/05)

A key issue, as IFSL and BCCB people point out, is that foreign officials do not only represent the Central Government, but they might as well represent a Regional or a Municipal Government or even an individual Ministry. (Diagram 1) As they find, people at this level are much more "on their feet" in developing new ideas, but they cannot be immunised from the general framework in their country. There are a lot of things that need to be in place before acting in a more specific level. A PPP programme, for example, might need enabling laws that the Central Government has not passed, and that would definitely hold back its development and implementation or other problems. Such issues will be subject to analysis in the next chapter. (Interview with IFSL&BCCB, 27/06/05)

As far as these officials' awareness of the PPP/PFI main issues is concerned, IFSL and BCCB specialists report that it varies enormously. Some of the people that they have met were extremely well informed and they had done a lot of research, perhaps they even had a banking or financial background. Others were completely ignorant thinking that PPP/PFI is about "free infrastructure" and that "the private sector just pays for everything". On the other hand, what they realise now, is that, compared to 3 years earlier, people come much more informed. Especially at a ministerial level there is generally a basic understanding of most of the issues. They do a lot of research, they read a lot of papers and some of them, specifically in Eastern Europe, are "former KPMG or PWC people", thus, they are well aware of some important elements of the programme. Finally, they conclude that it is quite difficult when, occasionally, they meet with delegations comprised of a mixture of people with various backgrounds and uneven levels of information. (Interview with IFSL&BCCB, 27/06/05)

NAO officials talk, as well, about an increasing trend in the number of foreign delegations and stated that they meet with one, or sometimes two foreign delegations per week, but they receive probably at least two visits a month. People in the NAO also receive emails in on top of everything else, from delegations that they have met in the past, asking for information; and they claim that it is not always that easy to answer. It can be really disrupting and time consuming to reply to all enquiries that they receive. (Interview with NAO, 04/07/05)

Diagram 1: Foreign Delegations' Background



Source: Interviews with IFSL&BCCB, 27/06/05, 4Ps, 28/06/05, NAO, 04/07/05, PUK, 05/07/05

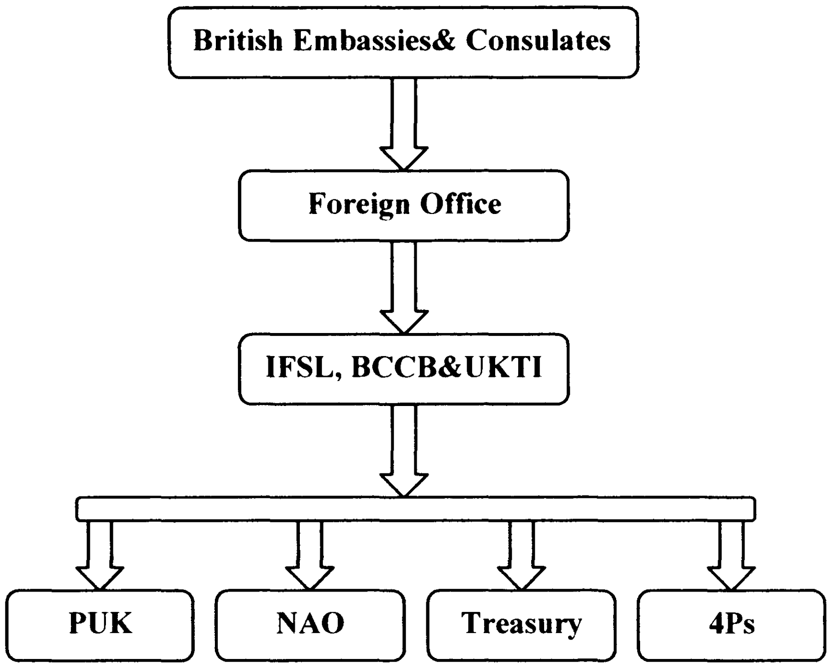
According to the NAO, the foreign delegations that they meet are usually at a ministerial level. (Diagram 1) They also meet with other government officials, journalists and their colleagues from the International Organisation of Supreme Audit Institutions (INTOSAI). NAO mentions that most of these officials are well aware of the basic elements of PPP/PFI, especially after a number of visits, but the unevenness in the level of information of the officials in the same delegation is once again reported. (Interview with NAO, 04/07/05)

PUK officials, in accordance to what the other specialists above reported, refer to a huge amount of interest and curiosity about the UK PPP/PFI programme, as it is one of the largest in the world, and PUK itself, as it is central part of it. Therefore, a lot of overseas officials, like China, Mexico, S. Africa, and Spain contact PUK, normally 2 or 3 times a day asking questions that range from central Government expenditure issues through to privatisation issues. It is clarified that these foreign officials are reasonably well prepared in most cases, but this varies hugely, and there are instances where "people have hardly heard about it." One of the problems is that people visit PUK at a fairly early stage, so their preconceptions of what are the main aspects of a PPP programme are constrained. For example, they cannot decide how to start off, how to allocate their limited resources and they tend to "severely" underestimate the amount of these resources, required to run a successful PPP programme. There is a lot of guidance and material broadly available, but "it is the very nature of PPP/PFI that keeps many hidden points and staff that are not published." (Interview with PUK, 05/07/05)

Furthermore, as a 4Ps' director mentions, "Public Private Partnerships Programme" also receives a flow of people from various countries and regions, like Australia, Germany, China, Singapore, France and Quebec. They have probably met with delegations from 15 different countries, over the last 3 years. These officials were representing the regional authority in the case of Quebec and a regional Government in the case of Australia. There has also been a local authority from Finland that was interested, but the rest of these delegations were people from the central Government or from organisations that are arm length from the Government. In addition, 4Ps report visits from people that are conducting research on behalf of a foreign Governments or institutions, as a recent example, where they met with French academics. (Diagram 1) Finally, as the 4Ps specialist mentions, most of these delegations that they meet seem to be quite well informed, due to the fact that a lot of information and guidance has been published by all Government Departments. General information in the UK approach in PPP/PFI is fairly accessible, so the meetings focus on aspects of the programme that are not, or will never be, published. (Interview with 4Ps, 04/07/05)

On the *sequence of the meetings*, it has become apparent from the interviews that the initial contact for foreign Governments is the Foreign Office. (Diagram 2) In order to get information on how they can access UK expertise on PPP/PFI, foreign officials come in touch with the Foreign Office, normally through the UK embassies or consulates worldwide. The first group that they would meet, though, seems to be the PPP Export Advisory Group and in specific IFSL. Possibly they would meet IFSL together with BCCB, but not necessarily. As the BCCB and IFSL people have already mentioned, the PPP Export Advisory Group is not really about hosting foreign delegations as they come in the UK. It is a bit higher level strategic group, so the first contacts are usually IFSL together with BCCB individually, and whenever it is appropriate, as these groups have more resources, there is an effort to have UKTI to participate.

Diagram 2: A Typical Sequense of Meetings*



Source: Interviews with IFSL&BCCB, 27/06/05, 4Ps, 28/06/05, NAO, 04/07/05, PUK, 05/07/05

* Diagram 2 presents a typical sequence of meetings. It is possible, as mentioned later on that after the Foreign Office a delegation might visit first the Treasury and PUK and subsequently the other experts. Another sequence depending on the delegation's specific interest is likely, as well.

Moreover, IFSL and BCCB often visit the foreign embassies in London trying to raise awareness of their action and role. So, they have referred to examples, such as the Czech Republic that their hosting at the moment, who did not come from the British embassy in Prague, but they came through the Czech embassy in London. (Interview with IFSL&BCCB, 27/06/05)

One of the initial contacts, as well, is HM Treasury, which is the appropriate department to talk about very precise policy issues. The Treasury, which has quite limited resources, is intimately linked to PUK, so it is quite often that it would sub-delegate a number of visits to the latter. And even though PUK receives limited support from the Treasury to help delegations from overseas, they do so, and besides the expertise on technical and implementation issues that they can provide, they can also very accurately describe Treasury's policy and assist on various policy issues. As a PUK' director states "In many instances, it is well known that we are an extension of the UK Treasury. So, it is not that you get a different story from us and another from the Treasury." Therefore, it becomes clear that PUK, which mainly provides "an overview from the public sector perspective on PPPs", is also one of the primary and quite significant contacts that a delegation would meet, either directly from the Foreign Office and the Treasury or through the IFSL and BCCB. (Interview with PUK, 05/07/05)

Finally, as far as the other centres of expertise are concerned, the National Audit Office and the Public Private Partnerships Programme, it seems clear enough that, due to their more specialised nature of expertise, they follow on the list of visits. As NAO experts claim " IFSL send a lot of people to us, PUK send a lot of people to us, people we have met send a lot of people to us...and over the time people come back for in depth sort of discussions. So, we get the same people back...", while, 4Ps people state that "Foreign delegations are often going around different places, but they come to us for local government information. They add that foreign officials visit them, besides the fact that they provide unique expertise and support on local government level, for the fact that 4Ps are very accessible; as they claim "there is no single place in the government where they can have such an easy access to information." (Interview with NAO, 04/07/05, 4Ps, 04/07/05)

This paragraph described the total scale of foreign delegations that visit UK experts, their typical level of seniority, their preconceptions of the main issues and what the sequence of their primary contacts and meetings is. But how does each organisation deal with foreign delegations, in general, or with each meeting, in specific?

2.4 Hosting the Foreign Delegations

This paragraph will try and outline the way in which the UK public or private organisations that, as we have mentioned receive most of the enquiries on PPP/PFI, host foreign officials. It will examine, thus, whether and how each visit is prepared and structured for the needs of the delegation.

According to the PPP Export Advisory Group there is not really a standard format. There is a preferred one. Even though they are often invited to run a seminar overseas they prefer not to, as it is quite expensive and they have to prioritise between those countries that are really serious. And this is defined as these countries, or even private sector companies, that would accept to pay to have people there to run seminars or workshops.

Thus, they would prefer some key officials to come to the UK first and visit BCCB and IFSL and maybe some of their members, and have some sort of primary contacts; and then arrange them to see some operational areas. If the Group is aware of what the weaknesses of a specific country are, it is possible that the delegation would be taken to meet some of the contractors in PFI that would have got particular experience and expertise, not necessarily in the specific country, but essentially, in Facilities Management and Outsourcing. In BCCB they consider that there is nothing better than having a competent firm that works in FM to spend some time explaining the key part of it. And then the delegations can go back and analyse all of these to their government.

The Group's experts continue that what would then happen, if a country realises that PPP/PFI is a programme that they are really interested in and they intend to develop, they would usually run a PPP seminar in that country, basically, to educate government officials. Consequently, BCCB together with IFSL, and using the Government's logo, would only work in conjunction with the foreign government's concern. It is possible that the foreign government will then decide to start off with a particular sector and maybe send sector specific group back to the UK, or even IFSL and BCCB may return to that country to run a workshop.

So, even though almost every time the visit is tailored and the Group does not want a "standard selling piece type of thing", they have started to map out a sort of path. "The whole procedure is flexible, but it is structured." It has to be specific to the country, its state of evolution and the sector. (Table 7) As the IFSL and BCCB experts argue "the visit has to be tailored to what they can accept and understand, otherwise it is worthless." (Interview with IFSL&BCCB, 27/06/05)

TABLE 7: Format of Hosting Foreign Delegations*

UK Agency	Approach		Resources
	Flexible	**Structured**	
IFSL& BCCB	√	√	***available***
NAO		√	***limited***
PUK		√	***limited***
4Ps	√		***limited***

Source: Interviews with IFSL&BCCB, 27/06/05, 4Ps, 28/06/05, NAO, 04/07/05, PUK, 05/07/05

Following the rationale described above, Partnerships UK try to prioritise the delegations they accept to meet. As reported in a previous paragraph foreign officials contact PUK through the Foreign Office or the Treasury, especially at a Ministerial level. So, PUK has to come to an understanding, usually with the Treasury, trying to distribute its limited availability of time and resources more carefully and efficiently. PUK also might be forced to turn away intentions from countries that just seem curious about and that are not really interested in PPP,

* To a certain extend all of the agencies have both flexible and standard format. Some of them *tend to* have a more elastic approach, whereas others *tend to* host delegations in a more structured way, depending mostly to the availability of resources. Table 7 illustrates the author's perception conceived during the interviews. For example, PUK and NAO have a more structured approach in terms that they organise seminars and training courses every year. 4Ps and IFSL&BCCB, on the other hand have a sort of flexible approach as they tend to adjust to the needs of foreign delegations; IFSL&BCCB will only organise a seminar in a country that is really serious about running a PPP programme.

or countries that keep on coming back every month, as it does happen in some cases. Occasionally PUK may ask, as well, from delegations to pay, as also mentioned BCCB and IFSL experts, that would send away those people that are not really serious about it. In PUK's case this seems quite rational as the rest of the public sector pays for its support and services. (Interview with PUK, 05/07/05)

Therefore, the next stage if a country is really interested in running its own PPP/PFI programme would subsequently be to get PUK's support to set up a taskforce. There is a part paid part subsidised, and supported by UKTI and Foreign Office, PUK-run very intensive training course, what is called by PUK's experts, PPP Masterclass, for people on the government side, people who are going to form, or have already formed one, a country's taskforce, and already have a basic level of understanding, so that the courses can be more productive. (Table 7) These courses, two up to now, are developed in PUK's effort to make the way in which they help and support foreign officials more effective and efficient. (Interview with IFSL&BCCB, 27/06/05 and PUK, 05/07/05)

On the other hand, NAO and 4Ps seem to have a far more flexible approach. (Table 7) As a 4Ps expert states "it would be too strong a suggestion to say we prepare at all...we just tend to respond to questions". 4Ps occasionally receive questionnaires ahead of a meeting, where they tend not to answer, due to limited resources, but prefer to restrict the whole process to simple meetings and discussions. It is also quite often that the chief executive will meet with people that are very senior, and sometimes one of the directors will meet with people, particularly if they have a focus of interest in issues that the specific director specialises in; like roads, schools or leisure. Finally, in many instances where the foreign officials require more general information or they give short notice on their visit, they will be approached and hosted by whoever is available, which has indeed proved to be effective when the questions are not so detailed. (Interview with 4Ps, 04/07/05 and Interview with NAO, 04/07/05)

NAO reports that they are also constrained by their resources and have to "ration themselves" and prioritise between the enquiries and the intentions for visits that they receive. So, in coordination with the PPP Export Advisory Group they usually accept to see people that they are worth seeing, where they have some value to add and where NAO does not just "constitute another part of their institutional tour". In addition, the National Audit Office runs at least one international course a year not just for auditors but for other foreign officials, as well. (Table 7) Finally, NAO refers to meetings that usually last no more than two hours and that there are a lot in common between what they discuss on each one of them. But they do clarify that delegations usually have a lot of different and specific interests and that this actually proves to be worthwhile. (Interview with NAO, 04/07/05)

This section has, therefore, analysed how each one of the key organisations in the process of promoting PPP/PFI deal with foreign delegations; how they prioritise between the visits, and in what way they attempt to support foreign countries' efforts more productively. All in all, the present and the previous paragraph have investigated the current practice in exporting the British expertise in PPP/PFI.

2.5 Conclusions and Recommendations

It has become apparent in the analysis that took place in the previous paragraphs that there has been a flow of foreign governments during the last 5 to 6 years coming in the UK seeking to get more information on PPP/PFI or to benefit from UK's expertise in the programme. Some of these countries now run their own PPP/PFI programme and there is a huge number of others that are currently considering to introduce it.

The PPP specialists who have been in the centre of all these interest in Britain's model reported that even though most of the delegations were representing Central Governments, there were several who represented Regional or Municipal governments, particular Ministries, or even journals and other international or academic institutions. They specified, though, that a proper central framework is required in order to enable initiatives at regional or other levels.

Furthermore, it is evident from the interviews' analysis that the level of information on PPP/PFI varies between the delegations and, the most important is that it may also vary between the officials that one delegation is comprised of. Most of the delegations have either an appropriate background or have been well prepared, as there is a lot of published material and guidance, knowing the basic elements of the programme, especially at a ministerial level. In that case the meetings can be more productive and worthwhile. There are instances though, where foreign officials seem to be quite unaware of the concept of PPP. Either because they have a vague idea and they are just curious, or maybe due to the fact that they are still at a very early stage of developing the programme.

After examining the sequence of the meetings, as described by the UK experts, the British Embassies and Consulates worldwide, and thus the Foreign Office, prove to be, indisputably, the initial contact for any foreign government keen to receive more information on UK's Public Private Partnerships programme. IFSL, BCCB, and in some cases UKTI, are normally the organisations that a delegation would first meet for a more detailed approach to the British model. What then usually follows is that the delegations are sent off to meet PUK and the Treasury (even though in some cases the opposite might happen, as mentioned previously), for policy, technical and implementation issues, the NAO for auditing issues of PPP deals and the 4Ps for local government information.

IFSL and BCCB, as all the other organisations as well, prefer to prioritise between those countries that have a real interest in PPP and those who are just curious about it, and distribute their resources as effectively and efficiently as possible. They prefer to invite foreign officials to the UK and take them to see some operational areas and to meet with some contractors or FM providers. If the interest is continued what BCCB and IFSL usually do, is to travel overseas and run a PPP seminar, primarily to educate government officials. In the same philosophy, NAO organises seminars every year for international auditors and officials, and PUK organises intensive training courses for members of foreign taskforces.

To summarise, it is obvious that the whole process of supporting foreign governments develop their own PPP programme, even though it is very much constrained as the available resources are limited, it has some sort of structure, like the sequence of the meetings, the seminars and the courses that are run every year, while it is still flexible enough to adjust to each delegation's needs and interests.

Therefore, it would be very interesting and valuable to investigate how this process might improve further and to report and consider each of the PPP experts' views on ways and methods to achieve that.

First and foremost, all the key agencies in exporting PPP/PFI reported limited resources. And the time and resources is the most essential part of this process. If the British Government and the Treasury wish to make sure that the best practice around the world is exercised within the UK, and if the Foreign Office and the UKTI are primarily interested to create opportunities for UK companies overseas, then they do have to coordinate and make sure either that the agencies, which are responsible to make PPPs work in the UK, focus on that purpose, and they are disengaged of the process of advice-giving, or they are provided with the appropriate resources to work successfully on both.

In addition, it should be made sure that these resources mentioned above are not exploited or abused. Thus, there needs to be somebody who will bear the responsibility to decide on the priority allocation of these resources. An organisation or a government department that would be the initial contact for any foreign government interested in PPP/PFI. A central point where all the enquiries come, which would act as a "gatekeeper" that would transform this informal "modus operandi" that takes place between the key players in exporting PPP, into a more standardised procedure and sequence of meetings; or into something more flexible but structured, deciding on the sequence and adjusting it to each country's needs and interests.

TABLE 8: Recommendations for Improving the Process of Exporting PFI	
1.	**UK Government should increase the available resources for helping foreign countries develop a PPP programme, as it creates in the long run opportunities for British firms.**
2.	**A "gatekeeper" agency should be responsible for the priority allocation of the resources made available to this process**
3.	**UKTI has to accept a more active role within the group providing full support and making sure that it is in tune with the priorities of UK's public and private sector.**
4.	**A small and flexible team, a new "taskforce", could be created within the PPP Export Advisory Group fully commited to the Groups mission.**
5.	**A web based information delivery system should be established to separate superficial and time consuming information from the real adding value expertise of human experts.**
6.	**The use of questionnaire before each meeting could make the whole process more effective and efficient.**
7.	**Frequent discussion forums and conferences should be organised, or a communication database should be created in association with foreign delegations that have set up and run a PPP programme, in order to monitor and possibly benefit from different experiences and practices that might fit in a UK context.**
8.	**More resources should be made available for the delegations' exposure to the "heart of PPP": to visit real projects and to discuss with contractor and FM providers**

The PPP Export Advisory Group, and in more specific, its two private sector members BCCB and IFSL seem to be trying to take on this role and the responsibilities that are tied in with it, having a resource advantage in relation to the other agencies. But the PPP Export Advisory Group can really exceed its role as a "higher level strategic group" (as illustrated by the group's experts), and really become the "gatekeeper" described above. It has the resources, the skills and the expertise, but it needs more than a government face. It needs full government support and participation. The UKTI has to accept a more active role within the group providing that support and making sure that it is in tune with the priorities of UK's public and private sector. Other agencies, typically members of the Group, like the NAO, the Treasury and PUK, should also be provided with the resources by the government, to fully participate in the Group's actions. Maybe a new small and flexible team, a new "Export Advisory Taskforce", could be created in that respect, within the PPP Export Advisory Group, comprising its members' experience, skills and expertise (and if necessary other organisations' skills as well, like 4Ps, Law Society, Department of Health etc.) which would be fully committed to its stakeholders interests.

Furthermore, what has been made clear throughout the research is that there is quite a significant part of basic information, of frequently asked questions, at a superficial level, which all these who find PPP intrinsic and are curious to find out more about, as well as all these who are at an early stage of developing their programme, really need to understand and learn about. And there is a point where this information is separated from the implicit advice that delegations receive from UK experts. The first type of information is already or can be transformed into formal and published guidance. It can, moreover, be a part of the "gatekeeper's" role as this is described above, or it can be provided by a passive, web based, information delivery system. The second type of information can only be dealt with by a human expert and not by any artificial intelligent system.

So, dealing effectively and efficiently with the first type of information is imperative, as it is not really worthwhile, but just time consuming. However, there might be some value added in dealing with the implicit sort of advice. It is possible that the questions and the issues that the delegations wish to discuss have not been dealt with in a UK context, but could be directly fed into developing the UK market. Therefore, this value added is where the whole process of advice-giving should mainly focus on.

As the NAO experts report, they do try to keep in touch with people that they have met and supported. They try to notice any differentiations between various practices and monitor their progress. This could definitely be the policy of all UK agencies that are engaged in this process. Either centrally coordinated by the "gatekeeper", or by creating common databases, by organising frequent discussion forums and conferences or even through individual communication between agencies; a continuous exchange of information and experiences.

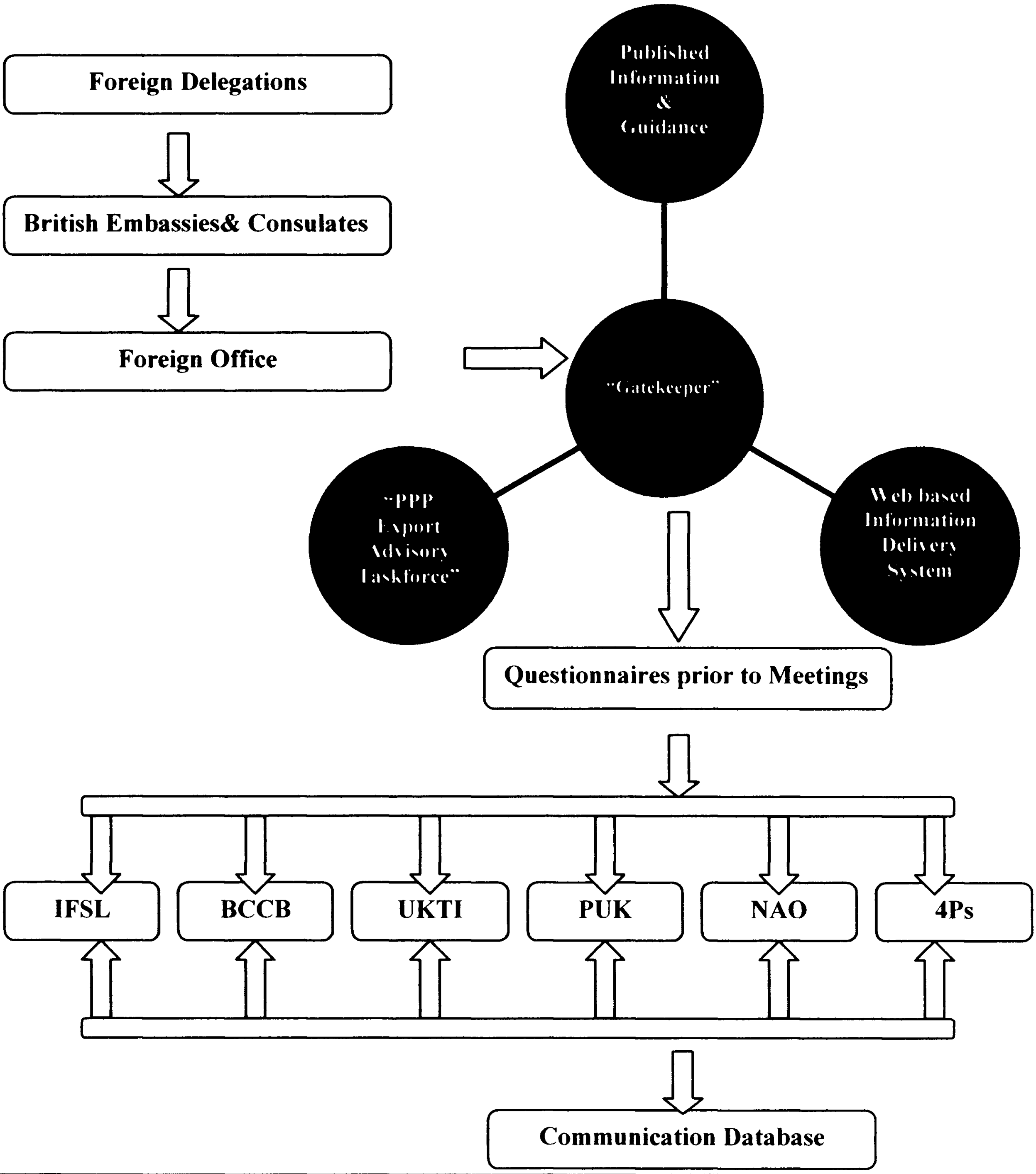
Some countries (Latvia, Mexico and Japan for example) have formed private sector-initiated PPP associations. Membership is open to any company with an interest in developing PPP and also has representatives from interested central, regional and municipal government agencies as well. This provides a particularly useful forum for governments to develop their PPP strategy in conjunction with interested stakeholders. But once again these agencies need the appropriate resources to act in any of those directions.

What is more, this limited availability of the resources constrains the foreign delegations' exposure to the "heart of PPP". It is essential to have those who are really interested in PPP to visit projects. To see how a PPP/PFI hospital, a school, a prison etc., actually works. To talk with teachers, nurses or prisoners is what makes it real. It is also important to discuss with contractors and FM providers. As most of the experts pointed out, these people are in the centre of PPP and that is where the real value and technology is. Thus, this is a key area that needs to be considered and to have more resources disposed.

Finally, a recommendation on the efficiency and effectiveness of the meetings is to have foreign officials to fill in questionnaires in advance. The UK specialists could be well prepared for each country's needs, make more efficient use of their time and more productively and effectively support foreign governments by having an overview of their interests and experience before the meeting. In the case of limited resources or the existence of a "gatekeeper" this would also be a very useful tool in order to prioritise between those countries who are really interested in developing a PPP/PFI programme and others that just seem to be curious.

These conclusions where drawn after a thorough analysis of the interviews with UK's PPP specialists; and the suggestions that followed, which are summarised in Table 8 and Diagram 3, is the contribution of all those who are engaged in this research to improve the process of exporting PFI further. These experts need to be reassured for the rewards to the UK economy and services industry of their input in this process; and that cannot be done by constrained, uncoordinated and unstructured methods.

Diagram 3: A Proposal for the Process of Exporting PFI



CHAPTER 3

ACCESSING UK EXPERTISE

3.1 Introduction

The Private Finance Initiative originally and now Public Private Partnerships more generally have triggered a worldwide interest, as repeatedly mentioned in this report. And a lot of this interest seems to be transformed into visits from delegations that come to the UK pursuing more information. Either willing to gather more information and satisfy their curiosity or determined to develop their own PPP programme, it became evident that up to a point the basic piece of advice is repeated from time to time, from delegation to delegation wasting in that way useful resources.

Thus, this section has as principal objective to combine the delegations' frequently asked questions with what the UK consultants consider as critical success factors, as both have been stated in the interviews, along with a part of relevant published guidance, and to transform these into a brief but comprehensive guide.

It is expected, moreover, to add some value by saving the experts and the delegations some time that would otherwise be lost in trivial matters, which could easily be read and understood in a brief guide. This would allow both time and money to be spent in concentrating on details that actually need the British experts' skills and experience; a process that UK could benefit from, as well.

Finally, the elements of PPP/PFI that will be analysed in the next few paragraphs could possibly become the foundations for a passive, web based, information delivery system, as it was discussed and recommended in the previous chapter.

3.2 The Evolution of PPP/PFI in the UK

After the 1979 elections a Conservative government under Margaret Thatcher pursued a continuing process of modernisation of its public sector services, while seeking to reduce the role of the public sector in the economy and to proportionately increase the role of the private sector. Contacting out services, such as cleaning, catering, and refuse collection, was a first step towards government's policy aspirations, while other subsequently proposed measures included more market incentives for public sector managers and more participation of private finance in the provision of public services. This was considered by government organisations and local authorities as a means of getting expenditure of their balance sheets and evading expenditure controls. (Spackman, 2002, Mumford, 1997)

The "Ryrie Rules" were formulated in 1981 establishing criteria under which private finance could be introduced into the nationalised industries. They were revised in 1988, prescribing that private finance could only be introduced where it offered cost effectiveness and that it should still be counted against the pubic body's capital budget, and they were abolished in 1989 on the "basis that they had outlived their usefulness" and were unsustainable in practice. (Spackman, 2002, House of Commons, 2003)

Even though, the Rules' abolition intended to encourage the private sector to bring forward schemes for private financed projects, and indeed it seemed to be quite popular with financial institutions and construction firms, and enabled the government to realise the benefits of off-budget financing, it did not stimulate any new flow of projects. Thus, the UK Government initiated, in 1992, the Private Finance Initiative. (Spackman, 2002, House of Commons, 2003)

"The aim of introducing the PFI was to achieve closer partnerships between the public and private sectors at both central government and local authority levels." According to Chancellor Kenneth Clarke the guiding principles of the programme are: the risk transfer to the private sector, without the taxpayer's guarantee against loss, and the evidence of value for money in the use of public resources.

When the Labour Government came into power in 1997, it abolished the rule that any public sector project that required Treasury approval should be tested under the PFI procurement route. It enabled new legislation that would not restrict the government from contracting out services to the private sector that would, also, legally bind local authorities in PFI contracts that they have signed, and that would provide central governments support in cases where they failed. Finally, the Government introduced the concept of "Public Private Partnerships", which include: complete or partial privatisation, contracting out with private finance at risk (PFI), and selling government services in partnership with the private sector, as clearly declared in its policy statement. (HM Treasury, 2000, Spackman, 2002, House of Commons, 2003)

To conclude, PFI has been the result of UK governments' attempts, from privatisation throughout to competitive tendering, to have the private sector engaged in the provision of public services. These efforts were primarily motivated by pressures on their expenditure, caused by the EU Maastricht convergence criteria. (For further analysis on the evolution of PFI refer to appendix A)

3.3 Elements of PPP/PFI

Public Private Partnerships, as repeatedly stated, bring public and private sectors together in a long term partnership to deliver public services. The PPP concept incorporates various types of partnerships including:

- Using the full range of possible structures to introduce private sector ownership,
- the Private Finance Initiative (PFI) and other arrangements where the public sector contracts to purchase quality services on a long-term basis so as to take advantage of private sector management skills incentivised by having private finance at risk. This includes concessions and franchises, where a private sector partner takes on the responsibility for providing a public service, including maintaining, enhancing or constructing the necessary infrastructure;
- selling Government services into wider markets and other partnership arrangements where private sector expertise and finance are used to exploit the commercial potential of Government assets.

(Source: HM Treasury, 2000)

A more detailed approach to the concept of PFI is presented in appendix A.

3.3.1 Why Should Foreign Governments Consider PPP/PFI

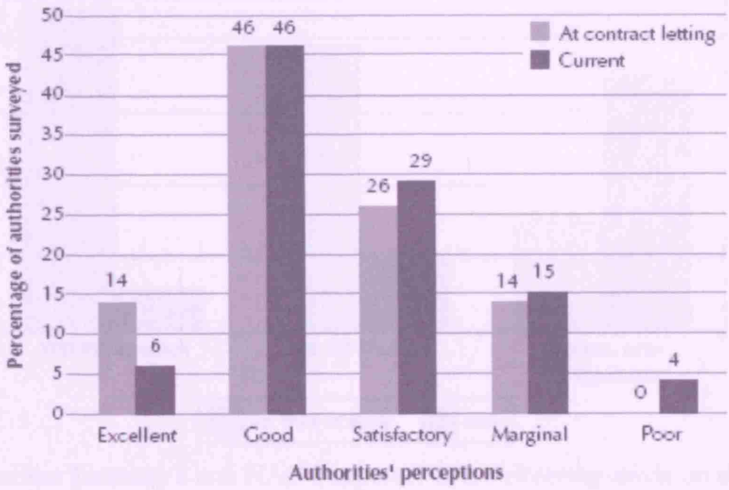
PFI, the principal form of PPP in the UK, has proved to deliver significant benefits to the public and private sector, which has caused foreign governments to consider its introduction and, thus, generated all this worldwide interest for the programme. These include:

Value for Money

After various reports have been published, it is now evident that PPP projects in many cases deliver greater *value for money* than traditionally procured services. (Chart 1) This means a more efficient, lower cost, reliable public service, than that of a comparable public service by the public sector. Where it is demonstrated that for a particular public service the public sector can provide a better and more reliable, at the same or lower cost service than the private sector, then that public service should remain in the public sector. It should be clarified that VfM does not necessarily mean cheaper. A far more superior service could be provided by spending relatively little more than conventional procurement methods.

The benefits gained from following this *Design, Build, Operate* form of procurement in most cases offset the additional financing costs for the use of private sector funding. This encourages also to focusing on the costs and quality of providing a service and an asset over the project's life cycle, as opposed to focusing on short-term capital expenditure, by transferring the responsibility of building, long-term maintenance, operation and the relevant risks to the private sector. The private sector then needs to use innovative design, the best construction methods and high quality materials, together with the latest most up-to-date efficient operating systems and the best maintenance support, with the lowest life cycle costs.

Chart 1: Authorities' Perceptions' of their Projects' Value for Money



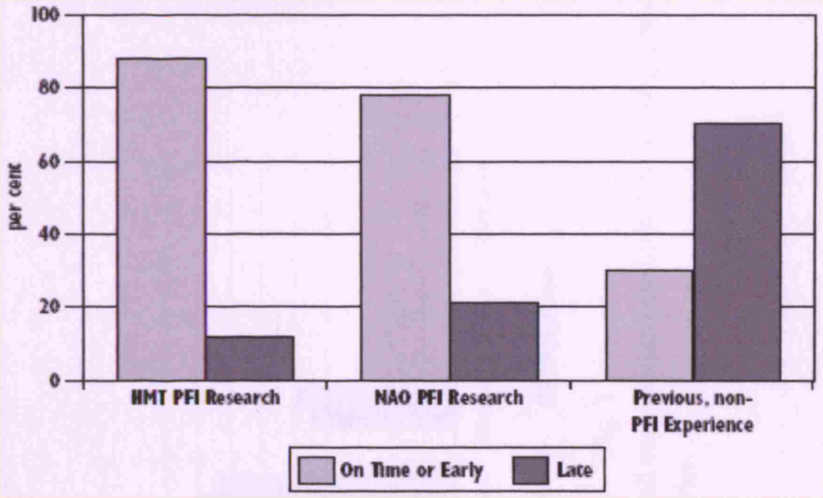
This is based on 98 authorities who gave us their perception of value for money at the time the contract was let, as well as at the time the survey was completed. This chart demonstrates the high expectations that authorities have for the success of PFI projects in delivering value for money in public services. But it also indicates that value for money is not guaranteed. Authorities need to ensure that the value for money anticipated at the time of contract letting is delivered in practice. To do so requires careful project management and a close attention to managing the relationship with contractors. Authorities also need to consult with users about their level of satisfaction with the services being provided.

Source: National Audit Office, 2001

Construction Performance

As mentioned earlier, the construction risks, among others, are contractually transferred to the private sector. There are strong incentives and payment mechanisms linked to the private sectors performance. Any additional costs will have to be borne by the private sector and any time overruns will automatically generate penalties for the latter. Thus, DBFO forms of procurement do, normally, lead to reduced cost and time overruns than traditional forms of procurement and to quality services that can be sustained in the long-term at the lowest cost, as it is shown in the following charts.

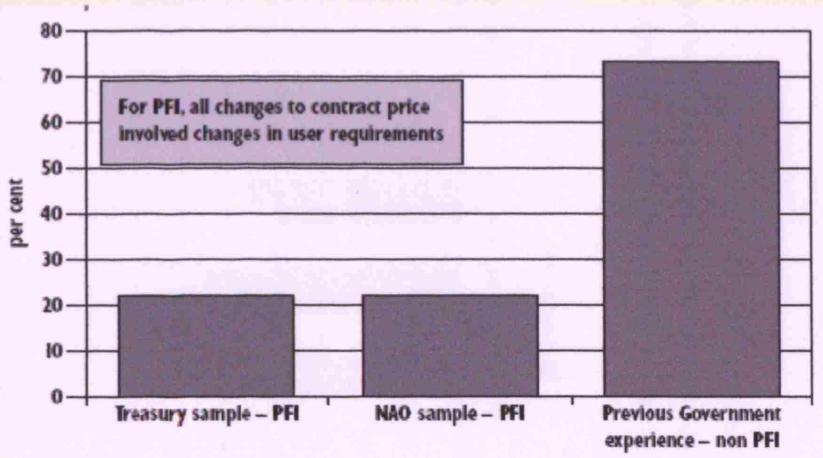
Chart 2: Timing of Construction Delivery



As it is apparent from the Treasury's and NAO's reports PFI is delivering assets on time, whereas the conventional procurement route has been considerably worse in this respect.

Source: Treasury, 2003

Chart 3: Price Certainty for Departments



"Both reports demonstrate that PFI provides high level of price certainty for the public sector, particularly in comparison to the budget overruns experienced in traditional procurement."

Source: Treasury, 2003

Chart 4: Quality and Design of Construction

Fig. 1

Figure 1 shows that all respondents in NAO's research rated the design and construction quality adequate or better.

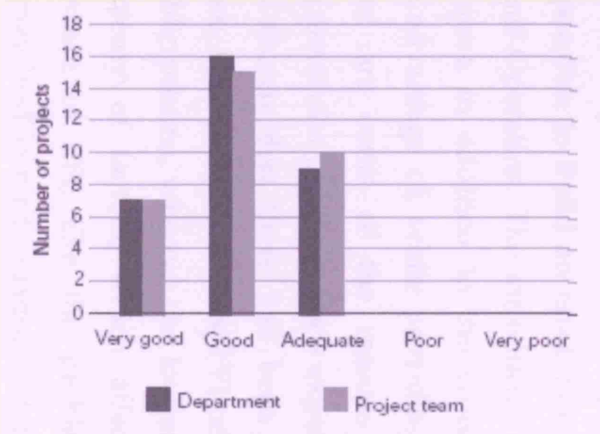


Fig. 2

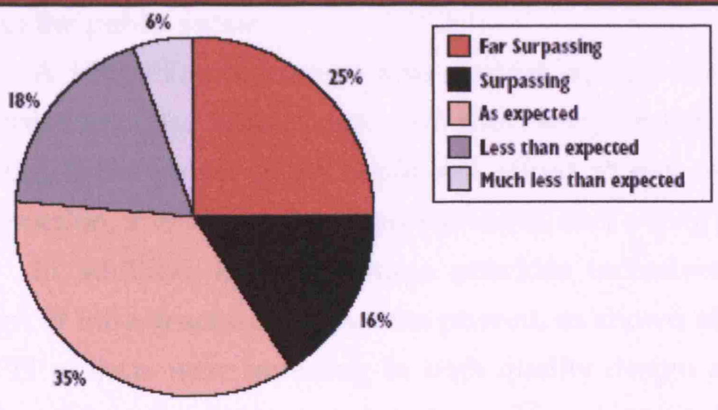
Figure 2 shows that all respondents considered the build quality to be adequate or better.

Source: NAO, 2003

Operational Performance

The PPP/PFI scheme leads to reduced operational cost overruns, in accordance to the reduced construction cost overruns, analysed above. The focus is on the costs over the life cycle of the assets acquired to provide a service. The private sector is responsible to Build an asset, but also responsible for its long-term Maintenance and Operation. The introduction of private sector skills and management techniques, in addition to the economies of scale that private companies can take advantage of, while providing a service for a number of public sector clients, are some of the reasons supporting this enhanced performance, which meets the public sector's expectations. (Chart 6) However, NAO reports have shown that there has been a great variation in PFI's operational experience. For example, the best PFI prisons were found to perform better than most public prisons, whereas the lowest performing was one of the worst. There are plenty of factors, which affect the management of the operational performance of PFI, like the problems in authority-contractor relationship, which may lead in renegotiation or termination of contact, and the public sector's inability to handle changes and develop the skills that are required to secure successful long-term contractual relationship. These will be more thoroughly examined in the "critical success factors" paragraph. (Harris, Working Paper, Leahey, Working Paper)

Chart 5: How Far is the Private Sector Meeting Up to Initial Expectations?



Source : HM Treasury, 2003

New Options for Public Sector Finances

The growing demand for new infrastructure, while there is the additional necessity to fund the renewal, maintenance and operation of the existing infrastructure, generates intense competition not only between projects, but also between different departments and sectors or other demands on public sector finance. (Harris, Working Paper)

PFI has the benefit of relieving short term pressure on the public finances, and limiting short-term capital expenditure, by linking the public sector financial obligations to the delivery of the service. However, it does not imply "free" infrastructure as many believe and even though it was initially considered as a means of getting infrastructure costs off the public balance sheet, many governments, as Netherlands and Hong Kong have adopted or considered introducing PPP/PFI in order to promote efficient procurement practice. (IFSL, 2002)

Strengthening of Infrastructure

It is repeatedly mentioned that PPP/PFI schemes aim at enhanced quality and quantity of infrastructure. It is its main aspects that encourage innovation, effectiveness and efficiency, that encourage the private sector to focus on the life cycle of a project, as the long-term defect, maintenance and operation costs, falls to its side. The responsibility to keep services and assets, required to provide this services, up to a certain standard is down to the private sector at no additional cost to the public sector

A PPP/PFI programme also enables the provision of services, and the construction of assets that come with these services, that otherwise might not be feasible, if the public sector could not afford to pay for both a large sum for construction, initially, and operational costs, over a long period of time.

In addition, the programme provides incentives for innovation in the design of infrastructure. It has been proved, as shown above, that firms bidding for PFI projects were investing in high quality design and construction, which produced better assets with reduced operational and maintenance costs. (Harris, Working Paper)

Spread of Best Practise

The introduction of private sector skills and expertise that led to Value for Money deals through innovation, high construction and operational performance, as these defined and analysed above, can be applied in all kinds of projects and sectors in the future, fostering the spread of best practice within public services. (IFSL, 2002)

Standard Quality over a Long Period of Time

The provision of services and assets are contractually arranged and their quality levels are predetermined over their life cycle. The payment mechanisms link quality levels with the public sector client's financial obligations. Whereas traditionally the quality of the service provided and repair and maintenance of assets were subject to public sector's ability and willingness to make the appropriate funds available. (IFSL, 2002)

Development of a New Business Sector

PPP and PFI created a new business sector for firms specialising in Design, Build and Operate forms of procurement. They have also generated the need for new disciplines like Outsourcing and Facilities Management. And at the moment there is, actually, a worldwide shortage of competent facilities management experts, as it is a too separate career for somebody to go into. (Appendix A, IFSL, 2002)

3.3.2 What are the Prerequisites of a Successful PPP Programme?

There are some key issues drawn from the UK expertise that need to be addressed before embarking on a PPP programme. If any foreign country wishes to develop a successful programme, it then has to carefully consider the following:

Political Commitment and Stability

To fully commit at a policy level to encourage the private sector to develop the necessary skills and resources. (IFSL, 2002) There has to be a consensus over the parties that if they enter into a long term service contract they will honour it. This also includes high-level politicians and civil servants who have an influence in policy issues. (Appendix A)

Confidence in the market is essential for the private sector to commit itself to long-term contracts, and for the public sector clients to be confident for government support, as well. There is worldwide competition for PPP experts, advisors, operators, bankers and financiers, and they will only accept to enter those markets where there is full support by all political parties. (Appendices A and B)

Private Sector Commitment

Fully committed private sector people and companies who understand and consider PPP a major opportunity, is something fundamental for the programme's success. (Appendix A)

Enabling Legislation

It is imperative to support the development of PPP/PFI with enabling legislation, firmly embedded in the legal structure of the host country. "Key aspects of this include: the existence of a concession law that can be readily applied to PPPs; the removal of tax anomalies that can weigh against PPPs; and refining of public expenditure capital controls to accommodate PPPs." (IFSL, 2002)

Regulation

Regulation is one of the most fundamental issues. "The balance between the government setting charges that unrealistically low and the private sector setting charges that are preposterously high is quite complicated exercise." It has to be done by competent people. The regulators have to be people confident, impartial and respected by all political parties. They have to act as a stabilizing force as governments change every four years and are not inherently trusted by the private sector. (Appendix A)

Expertise

The public and private sector must both develop the necessary financial legal and technical skills and expertise, in order to act equally within the Partnership. And part of the programme development is about developing these skills. Availability of time and resources, and the correct mixture of skills and expertise for PPP projects, are essential. (Appendices A, B, C, D)

Deal Flow of Projects

A flow of deals reveals the government's commitment. PPP must offer continuous business opportunities, recognizable to the international market, to make it worthwhile for firms to develop the necessary resource that is required to bid for contracts, and to attract international interest.

3.3.3 Critical Success Factors Based on UK Experience

The UK model throughout its development has indicated a number of issues that are essential for the programme's success and for delivering real Value for Money public services and assets. Some of the most important are briefly presented in the following tables. Table 9 illustrates the characteristics of a successful PFI.

TABLE 9: Characteristics of a Successful PFI

There is a case forconsidering PFI where:

- there is major capital investment programme, requiring effective management of risks associated with construction and delivery;
- the private sector has the expertise to deliver and there is good reason to think it will offer value for money;
- the structure of the service is appropriate, allowing the public sector to define its needs as service outputs that can be adequately contracted for in a way that ensures effective, equitable and accountable delivery of public services into the long term, and where risk allocation between public and private sectors can be clearly made and enforced;
- the nature of the assets and services identified as part of the PFI scheme are capable of being costed on a whole-of-life, long-term basis;
- the value of the project is sufficiently large to ensure that procurement costs are not disproportionate;
- the technology and other aspects of the sector are stable, and not susceptible to fast-paced change; and
- planning horizons are long-term, with assets intended to be used over long periods into the future.

Source: (Treasury, 2003)

KEY DRIVERS OF VALUE FOR MONEY

Value for Money Drivers	Analysis	Sources
New procurement appraisal based on VfM	The framework for appraising Value for Money through PFI has been recently revised by the UK Treasury. (Appendix B) The UK Government aims at a procurement appraisal that secures maximum improvement in public services through an unbiased decision-making process on which procurement route will offer value for money in any case. To date, PFI projects have been assessed for value for money at the project level constructing a Public Sector Comparator (PSC) to compare the costs of PFI procurement with a public sector option. The PSC is seen as a tool for evaluating the value for money of PFI projects. "The PSC provides a quantitative analysis to support a qualitative judgement of the best procurement option, taking into account the risks of each procurement approach as a means of informing a wider value for money assessment." However, the PSC at present is focused only on the narrower benefits and disbenefits of the future project options and is often done at a stage where it is not possible to take sufficient account of the wider factors around pursuing a PFI procurement programme, such as pre-contract costs.	**Treasury, 2003**
Effective Procurement Process	The procuring authorities need to establish a structured transparent process, to which the private sector can commit itself with confidence. The PPP process works through a series of stages. This involves the development of the business case, selection of bidders, short listing, negotiations, the award of the contract, financial close and the commencement of the service. The process requires technical, financial and legal advice; a full range of experience which is often not available within the public sector.	**IFSL, 2002**

Competitive Bidding	Competitive bidding is a fundamental driver of value for money in the PFI procurement process. The market's competitive interest and its capacity to deliver the projects, therefore, comprise of the last stage of the procedure of assessing PFI as an effective, delivering value for money, procurement route for a specific deal. The four bidders on average in PFI competitions are regarded as providing strong competition, while being a manageable number for the public sector to negotiate a good deal. Finally, effective competition can be sustained by keeping bidding costs low, by producing clear bidding requirements and reasonable timetables, by standardising the contracts and by ensuring that the number of bidders remaining at each stage of the competition is not too large.	**Leahey, Working Paper**
Managing the Deal	UK experience has indicated that in developing PPP projects, it is essential to focus, not only on how to negotiate, but on how to manage the deals, as well. It should be borne in mind that with PFI projects "you only get a promise of value for money" and that after a period of time this might turn the opposite way. The deal may be negotiated successfully but if it is not managed properly it will not deliver value for money.	**Interview with NAO, 04/07/05**
Contract Management and Evaluation	It is necessary for the public sector to develop a coherent strategy for the operational phase of the project. A contract manager is needed to "bridge the gap" and enable knowledge-transfer between procurement and contract management teams. The procurement team's role should be to inform the contract manager on the structure of the contract, whereas the latter should be participating from an early stage of the process to become familiar with the terms from the start, while providing advice on the practical side of the proposed contractual arrangements. The teams' skills and expertise and their relationship and coordination with the private sector contractor are equally important. A proper evaluation of the contract is fundamental, as well. In order to realise	**Leahey, Working Paper**

	whether the service has met expectations or not certain techniques should be used, like surveys, focus groups and questionnaires, targeting at all kinds of stakeholders, during a post contract evaluation process.	
Performance Measures	It is essential for the public sector to link performance measures to payment mechanisms. This aims at providing strong incentives to the private sector for improving its performance and for delivering services of standard quality. In UK projects the level of payment deductions has generally been low; either due to good service delivery or the subjectivity in measuring performance.	**Leahey, Working Paper**
Managing Future Changes	It is inevitable that, due to the long-term nature of PFI contracts, there will be changes to the initially specified services. And there is evidence (NAO, 2003, NAO, 2001) that 55 percent of PFI contracts had changed and 22 percent of central government building projects had commissioned additional building work. It is imperative, thus, if value for money is to be preserved, to include the appropriate provisions of probable or foreseeable changes in the contract, in order for them to be managed properly and more efficiently. Appropriate experience and knowledge of the market, as well as the right skills to negotiate the change is fundamental.	**Leahey, Working Paper**
Refinancing	The refinancing of a project can take place when some risks that are inherent in a PFI deal are reduced or abolished since the deal was signed. The extension of the contract or repayment period, improved interest terms, increased debt finance and secondary equity market are some forms of refinancing. Refinancing might be the case after the successful completion of the construction phase and the elimination of the risks that go along with it. A mature PFI market can, also, attract more sources of finance and under better terms than before. Finally, the financiers might try to support a specific project by providing additional finance or loosen certain terms.	**Leahey, Working Paper**

Contingency Planning	In order to meet its obligations, statutory or delivery of services, the public sector needs to adopt a contingency approach to the management of the operational phase of its PFI projects. It has to realise the potential impact of interruptions to services or unsatisfactory service delivery to these obligations. In order to achieve efficient and continuous provision of services and preserve value for money, the public sector management teams should monitor, evaluate and effectively manage risks that may affect its delivery of services or lead to contract termination.	**Leahey, Working Paper**
Termination of Contacts	Service interruptions, contractor default and unsatisfactory service delivery may indeed put the contract at risk of termination, in order to renegotiate projects and face such inefficiencies. There have been very few examples of contact termination in the UK. The short-term cost and liabilities that may result from such action are likely to act as strong deterrents for the public, and even for the private sector. Contingency planning is essential, thus.	**Leahey, Working Paper**
Effective Allocation and Management of Risk	Effective allocation of risks between public and private sector is essential for successful projects and it is a key element of the evaluation of the value for money in any PFI deal. The risks have to be identified and evaluated on time. It is crucial to optimally share risks between the public and the private sector and to properly transfer to each party, those risks that it is best able to manage and at least cost. "The procedures for managing risks are also important." For example the contract should clearly refer to the "contractor's reporting requirements" and "contingency planning." "These need to be unambiguous, particularly if the public sector is to control and mitigate the consequences of retained risks."	**IFSL, 2002, Leahey, Working Paper, Interview with PUK, 05/07/05**

Clear specification of Outputs	It is crucial that the outputs that will be required of the particular service are clearly defined at the outset.	**IFSL, 2002**
Affordability	All PPP projects have to be affordable by the procuring authorities. The main issue is whether the public sector authorities can afford the cost of the ongoing liability over the lifetime of the contract, or in other words "making sure that the funding is adequate to meet the aims of the project." If a project is reviewed as not affordable then the scope of the project may have to be reduced or revised.	**IFSL, 2002, Interview with 4Ps, 28/06/05**
Appropriate Rate of Return for the Private Sector	Even though governments have a monopoly in procuring PPP projects they have to carefully assess the appropriate rate of return for the private sector. The expected returns from PFI projects have to be rewarding for the risks that the private sector has accepted. Otherwise, bidders will divert their skills and resources to other more attractive projects and in different countries.	**IFSL, 2002**
Standardisation	Standardisation in the way PPP projects are structured can help to reduce costs and ensure a more efficient procurement process. Contract and other forms of standardisation help to minimize transaction and bidding costs and make it possible for small and medium firms to participate in the programme. The preparation costs for bidding a PFI project are very high, as many different disciplines and a wide range of advisors need to be engaged. Unsuccessful bids mean that "sunk" costs incur that it might not be possible for many firms to bear repeatedly; the element of healthy competition might then be lost. However, the very nature of PFI, the differing characteristics or unique aspects of some projects may make standardisation hard to achieve; as a PUK expert states "there are, of course, limits to standardisation…"	**IFSL, 2002, Interview with PUK, 05/07/05**
Contract Structure and Payment Mechanisms	A clearly defined contract structure with appropriate agreements and payment mechanisms is essential. The main contractual elements of a PFI are presented in Appendix C with the key aspects of a typical project structure shown in Figure.	**Harris Working Paper**

Critical Success Factors	Analysis	Sources
Centralisation	Within Government there needs to be a body tasked with getting the whole process moving. Eventually this means the formation of a PPP unit. Most countries that have successfully developed a significant PPP programme have central units or task forces usually reporting to the treasury or finance ministry. The role of the central task force is to take responsibility for consulting all concerned and creating policy to resolve legal, technical, commercial, and even philosophical issues that arise. It is also sensible to assist the public sector negotiate with the private sector more productively, as the latter is far more skilled and experienced. In addition, "most procuring authorities only do a project once, so they earn some experience and then it's gone. To try and capture that experience you need to have a central service." "Ideally the PPP unit or task force should have two aspects: a) A policy side, which can help remove any impediments to private finance in the existing administrative structures. b) A project side consisting of private sector advisors with a mixture of the relevant skills such as lawyers, bankers, consultants, project managers, property specialists, IT specialists etc. The real reason for the success of PPP in the UK was the development by the central task force of common processes and contractual documentation." "It is important that the PPP unit has responsibility for the entire PPP programme and should have, ideally, some form of prioritisation role. This is why setting up the PPP unit in the finance ministry makes sense. Experience has shown that setting up the unit in another ministry can lead to	**Harris, Working Paper, Interview with PUK, 05/07/05**

	commissioning ministries ignoring the unit and developing their own procedures and projects. In addition, it is important that central government ensures that sub-ordinate regional and municipal governments don't run ahead devising their own processes that may run counter to the central policy. This will discourage investors."	
PPP Units	Each spending Ministry, essentially, needs a PPP unit to develop its policy. There are, though, examples from the UK experience of exceptions like the Department of Health, which has a PPP unit but its projects are directly procured from the Treasury.	**Interview with IFSL and BCCB, 27/06/05**
Private Sectors Advisors	PPP/PFI is a complex and multidisciplinary procurement route to introduce. As already mentioned the input of a wide range of advisors is required; technical, financial or legal. If it is of poor quality it may, indeed, be an impediment to developing a PPP programme. But part of the programme development is about cultivating these skills in the private sector. Thus, countries that wish to run a successful PPP programme, they have to invest in that up-front commissioning a number of experienced and skilled advisors. The problem is that most countries look at PPP because they do not have the resources they need to invest in their infrastructure and provision of services. So, it seems sensible for Governments to be unwilling to pay too much for the initial policy advice they need while thinking PPPs, or for implementation advice afterwards. It is pointless, though, to economise in this essential piece of advice, the "best investment to make is in experienced advisors who can devise workable solutions and spot potential pitfalls."	**Harris, Working Paper, Interview with PUK, 05/07/05, Interview with IFSL and BCCB, 27/06/05**

Structural and Legal Issues	PPP/PFI programme development involves, for example, changes in primary legislation, the development of an output-based specification procurement approach instead of an input-based, as traditionally was the case, which eventually requires the development of new and fully detailed contracts. It is, also, critical to ensure a proper legal structure enabling public sector authorities to outsource the provision of their services to the private sector. This was an important lesson that the UK has learned, as the authorities lacked the legal ability to contract out services and transfer risks and obligations, while the programme was already in progress. Finally, other structural issues, which will need to be addressed include tax treatment (particularly value added tax where exemptions may exist for public sector contracts but not private sector ones), the ability of political institutions to implement reform, the lack of sophistication of domestic capital markets, and the ability of either users or the government to pay for the cost of the new investment.	**Harris, Working Paper, Interview with IFSL and BCCB, 27/06/05**
Prioritisation	As pointed out in the introduction, in the early stages of PFI it was mandatory that all capital projects in the public sector, which require Treasury approval, should explore PFI options. This caused an unmanageable flow of projects for central government to review and slowed down the development of the programme. It is, therefore, essential for a government to prioritise projects in the programme's early stages, and to focus on key sectors that should first be developed. "Not too big, not too small, not too socially sensitive." It should also identify in partnership with the private sector, "pathfinder" projects, acting as "catalysts" for resolving policy and implementation issues that had not been foreseen. Successfully completed "pathfinder" projects build confidence within the domestic and international PPP market.	**Harris, Working Paper, IFSL, 2002, Interview with IFSL and BCCB, 27/06/05**

Project Review	A gateway review of the commercial deliverability of the scheme, prior to the commencement of the procurement process, can be a source of comfort to the private sector. It is an appraisal of a procurement project carried out at crucial junctures in its development, which helps to reduce the incidence of unsuccessful procurements and avoid the associated bidding costs that would otherwise be incurred. A gateway review casts an independent eye over the aims of the project and the structure of the deal.	**Harris, Working Paper, IFSL, 2002, 4Ps and OGC websites**
Attracting International Interest	In order to attract international investment it is essential to fulfil some prerequisites. Some of these familiar issues include: *Deal flow*, *Bankability* (unless projects are bankable the international financial community will not invest in them), *Good Credit Ratings* for the country or the municipal or regional government, *Familiar Contractual and Legal Structures* (an international model seems to be developing. Trying to do something very different from this may jeopardise the development of international interest), a *committed and structured approach* from the public sector side, *Manageable Political Sensitivities* (given the sensitive nature of private sector provision of some services, like health, education, the government will have to assure the private sector that is capable of managing this element of the process, which also involves managing the press, the unions and public opinion), *Local capability*, (there should be a skilled and experienced CI, banking market, competent law, insurance and other service companies), Strong Local Financial Structures (ideally there should be a long-term finance market or, at least, the potential to develop one), *Projects which offer scope for innovation in design* (in order to reduce costs and increase quality, thus, offer Value for Money services, the private sector must be capable of providing innovative solutions, particularly in design, build and operate schemes.	**Harris, Working Paper, Interview with IFSL and BCCB, 27/06/05**

Suitable Sectors	PFI is most suited where the service requirements can be clearly defined at the outset and where all contingencies can be foreseen and contracted. Health, Education, Justice, Transport, Utilities, social housing, Defence and government buildings, are some sectors that have experienced PPP projects in the UK. Information Technology is the only sector facing serious problems in establishing a successful PPP programme.	**Harris, Working Paper**
Role of the Banks	As repeatedly mentioned PPP is about reforming the private sector and delivering better services to the public. And the financing methods cannot affect this. It is believed that a PPP structure could effectively deliver services with all the finance being provided by the government. However, in some cases the role of the banks and other financial institutions is critical in PPP's success. It is sensible that before lending money, financial institutions will normally conduct thorough technical, environmental, economic and commercial studies on the project. For example, they might prevent the private sector from taking to much or inappropriate risk. Thus, they utilize their skills and expertise to monitor projects that they have financed and are interested in, or even to assist governments in their analysis and control of projects.	**Harris, Working Paper**
Time	It takes 4-5 years for the PFI market to mature, to gain confidence and for projects to be procured quickly and efficiently. Initially, the private sector believed that it could achieve huge profits by getting engaged in PFI projects, which led to serious problems when some firms overreached themselves. The next generation was more cautious and the market more mature. In particular, a PPP/PFI project delivers value for money in the long-run and the anticipation for immediate tangible results needs to be managed properly. It takes time to develop the appropriate skills and expertise, especially from the public sector side.	**Harris, Working Paper, Interview with 4Ps, 28/06/05**

LESSONS FROM THE UK APPROACH

Lessons	Analysis	Source
Managing the stakeholders	Stakeholders' support and consent is essential for PPP projects' success. Local authorities, local communities, as well as other various organisations that need to be in support of a partnership project, may react adversely, for example, to the set of central rules that this has to work under.	**Interviews with 4Ps, 28/06/05 PUK, 05/07/05**
Managing the media, the press and the unions	The media and the press confront PFI almost entirely negative. There are newspapers that are running an "anti-PFI" campaign. "It makes a good story or column when projects fail." Managing the media and making sure that successes are also reported should be actually a major function of central government. This was a major lesson from the UK; manage the expectations and do not promise things that cannot be done. The trade unions are also very active in monitoring PFI projects and focusing on failures, claiming to protect public sector interests. But any criticism and challenging on the programme may, actually, be useful and keep the government on the alert, ready to respond and provide sound arguments for its actions.	**Interviews with 4Ps, 28/06/05, IFSL and BCCB 27/07/05, Harris Working Paper**
Transparent Procurement Process	PPP/PFI, as the programmes have been experienced in the UK have proved to be very transparent, "anti-corruption" procurement routes and, actually, more transparent than others. There is a concern, especially, in countries located in Eastern Europe that any form of relationship between the public and private sector is inherently corrupted.	**Interview with IFSL and BCCB 27/07/05**

Secondary Market	There is a huge number of nearly 700 projects already experienced in the UK and procured under its PFI scheme that there is a secondary market in the equity for PFIs, and it is being accepted now as a part of its institutional framework. "There are already around eight fund managers who are buying the resilient equities in PFIs, which shows that it is an asset class in its own right." And it these fund managers, as different kind of investors, who refinance PFI projects, requiring a lower rate of return, bringing through sharing mechanisms benefits to both public and private sectors.	**Interviews with 4Ps, 28/06/05, IFSL and BCCB 27/07/05**

3.3.4 Concerns and Criticisms

Even though the PPP concept evolved rapidly during the last decade there are still concerns for some aspects of the programme:

Main Concerns	*Analysis*	*Sources*
High Procurement Costs	The bid costs remain too high. This may result in reduced interest and competition. Standardisations of contracts, as analysed in previous paragraphs, and contribution to the costs, from the public sector side, are two ways of addressing this concern. These potential high "sunk" costs, the large size of the projects, the shortage of skills, and the lack of credibility in the marketplace are strong deterrents for smaller firms.	**IFSL, 2002, Leahey, Working Paper, Interview with IFSL & BCCB, 27/06/05**
Difficalties for Smaller Capital Projects	The complexity in the contractual arrangements of the service, the necessity for too much senior management time and technical, financial, design and legal advice, in addition to the disproportionately large transaction and development costs, have caused several difficulties in smaller capital projects. To address the concerns associated with the relatively higher procurement costs, the UK Government is introducing new procurement models, like the bundling together of smaller projects, in order to consistently achieve value for money in smaller schemes.	**IFSL, 2003, IFSL, 2002, Leahey, Working Paper**
IT	PPPs have the inbuilt flexibility to be introduced successfully to most types of infrastructure, and its principles can be adapted to many situations, but in IT PPP has encountered difficulties. The pace of technical change in the sector is making	**Interview with IFSL & BCCB,**

	difficult to produce an effective long-term specification of output. The nature of capital investment, which is mostly operating costs and the lack of a market for third party finance are some other reasons that cause these difficulties. The IT sector has, therefore, moved away from the PFI model to a range of more flexible procurement options. So, PFI is not suitable for everything, but it is for most things.	**27/06/05, IFSL, 2003**
Health	In the health sector difficulties have been experienced at the outset of the PFI programme, such as unfamiliarity with the process, the absence of standardised contracts and uncertainty regarding the legal powers of public sector clients - the National Health Service Trusts. The NHS Local Improvement Finance Trust (LIFT), a creation of Partnerships for Health, a joint venture between the Department of Health and Partnerships UK, was established as a nationally managed procurement programme, aiming at overcoming these challenges. LIFT was able to deliver the necessary investment through PFI in small scale investments, with the high level of public sector procurement skills.	**(IFSL, 2003)**
Schools	PFI deals in schools, as indicated by Audit Commission (2003), was relatively unsuccessful to deliver Value for Money, possibly because of its decentralised and fragmented procurement nature and the lack of proper experience and skills. Following the LIFT model the Department for Education and Science published *Building Schools for the Future* and established a joint venture between DES, Partnerships UK and a local government representative aims to provide a mechanism for accessing centralised expertise while allowing flexibility in a local level.	**IFSL, 2003**
Employment Issues	Some serious public sector concerns include employment issues. Civil Servants' main concern is unemployment. Even though there is evidence that those workers who have been transferred to the private sector have more opportunities	**Interviews with IFSL & BCCB, 27/06/05**

	it is a fact that in many countries low skilled workers in the public sector earn more than their private sector equivalents. But one way or another to make some public sector bodies efficient there will inevitably be job losses. Another concern is the motivation that drives private sector. The private sector is accused of being totally profit-driven. But, there are limited opportunities for making excess profit in PPPs as the costs are fixed than under traditional procurement, notwithstanding that a part of this profit is compensation for taking on risks.	
Private Sector Concerns	The private sector's main concern, on the other hand, is the governments' ability to collect taxes and pay long-term, especially in developing countries or regional governments. Receiving small amounts of money over twenty or twenty five years is, moreover, not quite a source of comfort for the private sector, which was used in lump sum payments upfront.	**Interviews with IFSL & BCCB, 27/06/05**
Risk of Change	Another huge concern for the private sector is the risks of changing legislation. And certainly changes in legislation should not be a risk for the private sector. Even though the private sector can price any risks, these may be unrealistically high. So, for example if the changing legislation concerns the employment law the private sector cannot be expected to bear the consequences.	**Interviews with IFSL & BCCB, 27/06/05**
Contract Termination	The private sector is also concerned whether the termination close that is structured in the contract foresees cases such as the government cancelling its PPP programme or the private sector firm going bankrupt; and whether properly structured termination payments have real value and significance.	**Interviews with IFSL & BCCB, 27/06/05**
Private Sector Capacity Constraints	Finally, far from the concerns for the public sectors capacity and ability to plan ahead, there is a concern for private sector's capacity constraints; if the industry in some countries or regions is able to respond to so many large investment programmes, running at the same time, and to cope with the governments extended expenditure on infrastructure, considering the fact that many of the UK	**Interviews with IFSL & BCCB, 27/06/05, 4Ps,**

firms are engaged in overseas projects. And there is evidence of materials and skills shortages in certain regions or for particular types of investment, like large hospitals or school buildings, running at the same time. Procuring projects within the European Union is a potential way of increasing the capacity.	**28/07/05, PUK, 05/07/05**

Besides these public or private sector concerns regarding PPP listed above there are other aspects of the programme that have drawn a lot of attention and criticism. These are summarised in the following table.

Criticisms of PFI	Responses
Public finance is always cheaper than private finance	Although private financing is typically 1-3% higher than public finance, the gap has been narrowing. Moreover, financing costs average only one third of the total cost of the projects. PFI is only able to achieve value for money if savings over the whole life of assets and service provision outweigh any additional margin on financing costs.
PFI process hinders accountability	A range of scrutiny mechanisms exist, including reports by the National Audit Office. Also hospital business cases are published. These are often more transparent, measurable and effective than traditional private sector scrutiny and accountability procedures.
PFI is bad for public sector staff, whose terms and conditions of service are threatened.	Staff concerns have largely been addressed though guidance on the need to disclose information, consult staff and provide comparable pensions. Also staff terms are and conditions are preserved by TUPE (The Transfer of Undertakings (Protection of Employment) Regulations) Anecdotal evidence suggest high levels of satisfaction among transferred employees on signed deals.
PFI leads to the public sector disguising open-ended liabilities, and therefore lacks control over these liabilities.	The public sector's exposure to liabilities becomes less open-ended because payments made under PFI contracts are relatively predictable and the true costs of financing and operating an asset are fully exposed. Also, estimates of future PFI commitments are published twice a year by the Treasury.
The PFI distorts spending priorities, because projects are taken forward on the basis of qualifying for the PFI and generating a bankable revenue stream, rather than because of their overall benefit.	The policy priority should be established first, before deciding the procurement route. In practice, a range of criteria have been developed for prioritising possible projects, although clearly they need to be suitable for the PFI before they can be assessed against these priorities.
The public sector is tying itself to present day solutions for the next 30 years.	This is no less true than for traditional public sector procurement. Most PFI contracts are in any event given flexibility to respond to changing public needs. In addition the concession contracts usually have provisions such as benchmarking and market testing which enable the public sector to benefit from the emergence of improved methods of delivery for relevant services.

Twenty year service contracts may not always be optimal, as incentives for the service provider to make changes may be weak and biased towards cost cutting rather than service enhanced activities.	The key mechanism to incentivise ongoing performance throughout the contract term is the formulation of appropriate payment performance mechanisms. In addition the contracts generally include a number of provisions to further incentivise the performance standards e.g. benchmarking, market testing, and ultimately termination provisions.
PFI schemes have an adverse design and environmental impact.	PFI can help to promote innovative design concepts and environmental efficiencies through suitable treatment of these requirements in the output specification. Issues related to design and whole-life costing have been the subject of guidance provided by the Treasury Taskforce.
PPP projects are expensive to procure because of the high cost of formulating bids and advisors	There is no doubt that the early PPP projects were costly to procure. However, the use of standardised procedures and contract forms reduces these costs considerably. PPP procurements do involve more technical work than conventional procurement and for this reason they may not be suitable for very small projects. The UK treasury has recently instructed that PPP should not be used for projects costing less than £20million, although smaller projects than this have been undertaken in the UK and elsewhere.
PPP projects can only be undertaken by large multi-national firms leaving no opportunities for local small and medium enterprises	International PPP contractor/operators subcontract most of the activity involved to smaller firms. Many large UK construction firms do not undertake any actual construction themselves any more but just project manage sub-contractors. There are plenty of opportunities for firms of all sizes to be involved in PPP projects.

(Sources: IFSL, 2002, Harris Working Paper)

3.3.5 International Development of PPP/PFI

A growing number of countries worldwide have embarked on a PPP programme or have been preparing to do so, following the UK model and benefiting from the UK expertise. Some countries are driven by financial constrains and others because of the increasing evidence that PPP solutions provide Value for Money.

The fulfilment of the prerequisites listed in the previous paragraphs is essential, and indeed many countries have shown the necessary political commitment, developed the basic financial, legal and technical skills, enacted the proper legislation and began carefully with a pilot programme.

It is also significant to pay special attention to all those key elements of PFI, all those factors that are critical to the programme's success; the key drivers for Value for Money, the major issues for successful policy and implementation of the programme and all the other lessons that have been drawn from the UK experience.

But in spite of the fact that a lot of these have been considered and satisfied, a number of countries may encounter other challenges related to locality issues. Legal and cultural differences may result in experiencing various difficulties, like implementing the proper PPP legislation or implementing certain changes in the roles of public and private sector that are required under the new procurement route. (Appendix A)

The governmental system may also hinder difficulties and challenges that need to be overcome. As described in the first part of this report many delegations that seek to access UK expertise represent local, regional or municipal governments that have more autonomy. This more decentralised system may act as an impediment to the successful development of PPP, as these governments cannot be immunised from the general, legal, technical, financial, framework in their country.

Finally, as the IFSL (2002) guide analyses "the development of PPP may be constrained by structural issues related to the ability of political institutions to implement reform, the lack of sophistication of domestic capital markets, and the ability of either users or the government to pay for the cost of the new investment. Multilateral institutions, such as the World Bank and regional development banks may play a prominent supporting role alongside the firms providing advice in resolving these challenges."

3.4 Concluding Remarks

"The most widely developed and the most successful Public Private Partnerships model in the world is the British one, as applied in Britain." It has delivered, in a revolutionary way, a wide range of public services by using the financial, design, operation and management skills of the private sector. More and new facilities, schools, hospitals, prisons and roads have been delivered, bringing along substantial benefits for the public. "It has evolved and it is still evolving it is not a static process." Lessons have been learned and are continuously being learnt on how projects and services can be procured and delivered faster, more efficiently and effectively.

This chapter has eventually provided an overview of how PPP evolved in the UK and a brief introduction to how it has been experienced, and what lessons have been learned, through out all these years of application of this procurement route to the delivery of public services.

The UK experience has illustrated that there are "certain things to be put in place" for developing successfully a PPP programme. These prerequisites include: political stability within the country and "high-level" public and private sector commitment to fully exploit the opportunities that the programme offers; establishing the appropriate legislation and the proper regulation, in order to allow the programme's effective and efficient development, whilst keeping the balance between the public and private sectors. Finally, a "pipeline" of projects is essential to demonstrate the government's commitment to the programme and to attract domestic and international interest, while it is necessary that the private sector has the capacity, the resources and the mixture of skills to respond to this flow of projects.

Furthermore, there has been evidence that there are critical issues that have to be considered as well, in order to successfully develop a PPP programme. Effective management of a PPP project's complex structure and environment is fundamental. Managing properly the whole deal, from a transparent procurement process, structure and documentation of the contracts, throughout the media, the press and the unions, while planning for any contingencies, like future changes or contract termination, are some key drivers to secure value for money in PPP projects.

In addition, there are more specific implementation matters that the unparalleled UK expertise identifies as valuable lessons and crucial for the development of the country's successful model. These include the establishment of a central taskforce responsible for the entire programme, for resolving any policy or legal, technical, and commercial issues that arise, and provide support to procuring authorities , as well as PPP units in every spending Ministry, to develop each one's policy. Starting off, cautiously, with sector-specific "pathfinder" projects, as "PFI is suitable for most things, but not for everything", may prevent significant failures. It has proved to be more suitable where the service, the output, can be easily and clearly specified at the outset and all contingencies foreseen and contracted. Finally, PPP/PFI, delivers value for money in the long run and, therefore the expectations and the anticipation for tangible benefits has to be managed. As the market matures and the appropriate skills and expertise have been developed projects are procured more effectively, and as a secondary market emerges, new benefits are realised.

To conclude, there is a lot of criticism and concern about Government's PPP programme, as it has been analysed earlier. And indeed the programme can be further improved. "But one of the most important things is to look at the successes." And if all these particular subjects discussed in the present chapter, are carefully considered and applied, taking into consideration local specificities, then the British success may be well emulated. Time and costs overruns is no longer the case and the quality and design of construction is superior. The focus is on the service and the asset over the project's life cycle and the private sector seems to have met the expectations, even though experience of operational performance remains limited to-date. PPP benefits include the relief from fiscal pressure, which, in general, most modern governments face, avoiding the constraints of public sector borrowing limits, keeping investment levels up and providing infrastructure that otherwise might not be feasible. Finally, the skills and expertise acquired to deliver value for money solutions can be well spread within the public and private sectors and applied in all kind of projects, no matter how these are procured.

CHAPTER 4

EPILOGUE

4.1 Research Overview

"There is not best way or best practice in PPP. There is a best way in looking at the successes around the world and trying to emulate that. And there is not a single best way of doing it, there are plenty ways of not doing it, though." PPP experts are aware that each PPP programme really has to be tailored to each country's needs; it has to function within the public and private sector capacity constraints of a particular government. *"Taking the PPP box and trying to plug it in somewhere else is not a sensible approach, but understanding why things are done the way that they are done in this country and then adopting it to a particular country is perhaps a more constructive way."* (Appendices A and B)

And this is where the real value of this research is. After demonstrating the large scale of foreign delegations that visit UK, describing the seemingly unstructured sequence of their meetings with UK experts and the flexible, but time consuming approach in the way that they host these delegations, there has been an attempt to contribute to the initially identified problem; the successful adjustment of PPP in a different environment. A lot of useful conclusions were drawn from this part of the research, and the UK officials' recommendations on improving the process further, have been listed.

In addition, it has been illustrated why and how PFI evolved in the UK, which the specialists consider as totally related to its success and imperative to be well understood and realised before the programme is to be introduced elsewhere. Subsequently, the main reasons and benefits that should lead countries in introducing PPP, the critical success factors and lessons that have been learnt during the programme's development, were presented. The experts provided an overview-framework of PPP, based on their experience, which has been enriched by published research findings, and has been transformed into a brief, but comprehensive, guide on basic issues that are, or should be, of the delegations' concern.

As PFI is still evolving there are a lot of concerns that need, and can be addressed; and these have been included in this report, as well. Finally, it is in the scope of this report, and it will really add value to make some recommendations for future research. Hopefully, further research on the subject might well provide a more rounded view, it could further contribute to the process of exporting PPP, and provide additional insights and assistance to all those engaged in this process.

4.2 Recommendations for Future Research

This research has eventually provided useful information on how foreign countries attempt to access UK expertise on Public Private Partnerships and focused on the basic part of advice that they receive, disaggregating that from more specialized aspects of PPP, which can only be dealt by human experts, and not relevant guidance or websites.

A number of UK specialists, in key agencies, PUK, NAO, 4Ps, PPP Export Advisory Group, who host most of the delegations, were identified and interviewed, to assist in fulfilling this report's aims and objectives. However, these agencies are predominantly involved in central policy and implementation issues, whereas, there are other agencies that also receive a substantial number of delegations, which are specialised in specific sectors; these may include departments or organisations like the Prison Service, the Highways Agency, and the Department of Health. In addition, Partnerships for School, owned by the Department for Education & Skills, but jointly managed by DfES and Partnerships UK, and Partnerships for Health, which is also jointly owned by the Department of Health and Partnerships UK, are two bodies that may give useful information about the support and advice they provide on their *"Building Schools for the Future"* and *"Local Improvement Finance Trust"* programmes to foreign delegations.

Finally, what would be extremely valuable is to manage to conduct a research from the foreign delegations' side; to investigate which specific aspects or sectors were they particularly interested in when they visited UK experts, what kind of advice have they received from them on these issues, and if these relate to what has been reported in the experts' interviews. To conclude, it would be interesting to discover how significant do they consider the support and the advice that they have received visiting the UK and what have they experienced in practice; like what do they now consider as the prerequisites for developing a PPP programme, the critical success factors and what their first realised benefits are.

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APPENDICES

Appendix A

A part of the interview with:

International Financial Services London
&
British Consultants and Construction Bureau

"What happened in the UK was the construction industry was family owned. And the thing is it moved great booms to slumps. And we've seen that happen all the time; and these firms wanted to smooth their cash flows out. So they started investing the family wealth in BOT scenes in Malaysia and so on. In that period overseas then developed a skill that wasn't traditionally in the construction industry. Construction is quite confrontational...

They suddenly realized that there were principles that couldn't work... and they took with them a group of professionals who then started to understand that being the architect wasn't necessarily the man standing on top of everyone. He had a role in the team but our professionals were not team orientated. They were built in the military model. This went though quite nicely till Margaret Thatcher come into power. And she wanted to liberalize everything in Britain. She didn't...like...people might think she just wanted to swash the unions. That was a good thing because the unions representing a very small amount of people were running the country and running in into the ground. Our professions were closed shops like the unions, so she opened all of those up, as well. So you no longer found that only a surveyor could do this, only an engineer could do that... If you had the professional qualifications you could have multi-disciplinary firms and so on. And she started doing the same with lawyers, with accountants with banks. So, we had an environment where people cooperated instead of being... like the traditional model of the world. You're in that tube...you can never look out.

She (Thatcher) indirectly cut right across things. So, we had the construction industry that it was looking to smooth out it's cash flows. We had very good, very well experienced legal and financial firms anyway. Because being an island we've always traded...I mean a Britain for thousands of years has traded. So, we always had a bit of an ability...I mean we had the residue of having all that empire thing, but basically, it would have been indeed plenty of links. So, there is a logic in it...

When the government also realized we couldn't afford all the things that people were entitled to without putting tax to unacceptable level, they had to look at things. There was a feeling if it's government run, it will be run badly... and private companies appeared to make money... So, all this going on... and at the same time we were beginning to exploit the North Sea Oil reserves. And the money spent on that, made government departments look like children's toy pairs. And the summary is, in the North Sea everything came in ontime, everything worked like clock, no problems, no arguments, no big cost overruns. So, a commission was set up to literally look in what is happening in the North Sea that might be able to advise government departments to be just a little bit better at procuring hospitals or schools or prisons...

And that's where it all came to a whole a lot of different things. We were floating around and sort of...almost by accident, a bit like magnet, it started drawing these bits in. And we then started by privatizing certain things that we felt there was no strategic need for the government to own. Telecommunications, some oil companies that were state owned, and so it went to a whole series of things, right up to the railways. Which are not a disaster it all has to do with the government interference. There are wore passengers in our railway than there have ever been. That would never have happened under government management. It's very complicated.

Then came the next stage. This appeared to be working. What about all the other closed shop issues. Why can only the cleaner in the hospital work for the government. Why can't he work for a cleaning company ?So they started looking at different things. They're sort of saying lets be doctrinaire about this.

So its must be put out in the private sector. Let the public and the private sector compete for this sort of contracts. So, we had the outsourcing period.

And then ultimately, these two things came together and the whole idea, we've now sold all the things... and some things we shouldn't have sold. We've sold all the things we can, and we've outsourced as much as possible, but we still need 135 big hospital and we still need this and we still need that. And if we the government buy it, this is will cost too much and we'll get thrown out, because the taxpayer doesn't want to pay 90% tax. He wants to pay 30% or something...

So we started looking out...can the private sector deliver services rather than projects. *"And that's where the PFI concept came from."* So, our professionals begun to co-operate with each other. So, you had something that you don't get in many European Countries. You didn't have so many closed doors, so a lawyer could do things in Britain that he way couldn't do in Germany or an architect could do things that an architect in Switzerland wouldn't...

So, there was this cooperation and understanding and so on. And we had of course developed the outsourcing industry and at that point Britain was leading Europe in terms of outsourcing capacity. Only because we've done some and most people haven't. Not because we where clever...we just had the experience. A lot of circumstances brought in together and that's how it started off and it started in a very weak way. *"This history is quite important."*

It's intresting because, as we said, a whole stream of things come together accidentally. One of the things that we found with privatization process, is that it made law firms and banks and financial services come together, in teams, on big projects for the first time. So, British projessional advisers got used to dealing with people in other disciplines and in other firms and forming consortia of projessional firms to do a particular job or bid a particular job.

And therefore they managed the risk within the team as well. So not just the private sector take this or don't. These players began to understand that you can take these sort of design risks... and I can take on these. So they started making sense among themselves to minimize the risk element and risk transfer is an important part of this.

It's a whole series of things that were coming together...and in some ways, if we had never had the socialist disaster of the 70's when our country went right down to the bottom of the pile, we probably wouldn't have been in the dire straight to think our way out of it. But it isn't like in Germany or France. They're not going anywhere. They're not particularly going down, but first the world is taking off and they're staying still. We could have been the same... but we were in such a mess. We had to do something about it, to be honest...

One of the people who worked in IFSL when I joined 6 years ago was Mrs Thatcher's privatization advisor and he said to me...When they first started privatising they were only doing it for the money... They were so desperate... But in the process of privatizing things, in the process of making things appealing to not just the specialist financial market, but to do what we did and Thatcher has done some years before, is to sell things to the people, the people bought shares. They realized that in the process of tiding up organizations to get their share prices up, they found that by bringing the private sector they became a lot more efficient and they cost a lot less to run. And this was actually a complete surprise to everyone. People thought that the sort of things that government run, like telephone companies, would always lose huge amounts of money and would always be inefficient, because they were providing this huge service to thousands and thousands of people and it was a public good that you could never really make it run efficiently. And then much to everybody's surprise, although it's just as it was 150 years ago all public services were run by the private sector. It wasn't like that... and it was realized that it wasn't the service itself that it is being provided that made it efficient it was the way it was being done... but that was a great revelation to beat in the early stages.

So all the things that we started talk about outsourcing, PPP follow on from that, which followed from Design and Build contracts all came about because people thought, now every time we get the private sector involved here, it's better... and probably cheaper and there is a better service delivered and it's just based on experience...bit by bit by bit, it wasn't something sudden...

We talked to a lot of people from govrnment... from the UK government, this week. And they seem to thing the private sector is saying "you people in the government are useless"... it's not at all. It's about getting people to work in a different way. And it's sort of difficult for people who are trained in government, who are trained in a particular way, to thing about doing things on another way.

Sometimes they can't do it anyway...I mean sometimes...a good example as the provision of machinery under a PPP contract, for hospital medical equipment....Big private sector firms have more buying power that they can buy state of the art equipment cheaper, while a single national health service trust can't. And they can't afford to buy the very best equipment, where the private sector can.

There's a huges series of these. PFI, I'll call it PFEI rather that PPP which is assort of American or European... or whatever term for various things. Now the current government couldn't stick to a term that was used by the previous one, even though they carried on doing exactly the same thing; they had to rebrand it. But that has confused things a bit...

But the whole thing was a sort of... it was an evolution driven by a need, driven by the fact that though various decent remanagement techniques on a national basis we moved up from quite a low position to the 4th longest economy of the world. With the 4th largest economy of the world comes an expectation for your taxpayers of better than we were getting not withstanding...we're still one of the very few countries in the world that has health provided...we call it free...but we pay taxes for it...

To improve these things you need to bring efficiencies in...governments are centralized...governments are not filled with experts in various sectors... the various sectors have that...and id doesn't matter here you go... red tape struggles innovation...by nature governments are risk averse legally... so they can't be innovative...

One of the classic ones...and if you remember we mentioned the schools...What happened is if the state needed a school then it would say I needed a school with the walls in that color and the clairs like this, that would look such and such and such. What you do with the PFI you say I need to educate 100 children in the area of so many square miles...Tell me how to do it... A school will be built, but they won't go out to built a traditional school exactly like every other school. They look at what is needed to educate children. The school is used 7 hours a day which means you've got 17 other hours a day with the potential to do something else. The private sector looks at it in a completely different way from the state... so we've developed these output specifications that you come across, which isn't providing me with 20 class rooms; it's providing me with whatever I need to educate 20 or 100 or a 1000 children. And so you're going by demand driven requirement, not a doctrinal, try and test it of the red book, that's what the school looks like thing.

...To mention prisons... It doesn't cost much less to run a prison in the private sector than it does in the public sector. Because of the incentive schemes, the prisoners coming out of the privately run prisons, are offending less often than the coming out of the state prison. So that's where the real value is... Because we don't want people locked up. We want them rehabilitated. The state system is about locking people up. The private sector's job is to try rehabilitate people who've gone off the rails. And it's coming from a different direction all the time. It's only through the PFI we can do that.

I think that's a very very key fact. And it's something that differentiates our approach in this country to most of the European countries... Infrastructure is important and people like the EU and people like the Asian Development Bank and the American Development Bank see infrastructure as physical things; and really these physical things are only there because they've providing a service, whether it's rail, transport, or bridges or hospital treatment or whatever.

I think the key realisation that we came to in this country, which still a lot of people that I talk to in Europe have lost: building schools is irrelevant. It's how you use these things to provide your service in the long term that is important. And the EU system of grant funding continues its old fashioned idea of looking at infrastructure something you put money into to have something built, but you don't provide any help and it doesn't provide any help in operating these things to a defined standard.

So, any country that wants to do PPP, because it wants to build things, I get very worried about. If it says, because it wants to provide better hospitals...That's good...But, if it just want to build new hospital then PPP is pointless because they might as well just pay now the money and then watch it deteriorate every 25 years.

We'll talk in a moment about the incentives. There's another very important bit. The private sector left to it's own devices will run over everything. It is the nature of business to make money. So, you need to balance it up with good regulation and system of penalties. Penalties that are to incentivize. To make you succeed rather than to collect the penalties. So, unlike our parking system....The parking system here in London right round here is about making money for the council. Not about managing traffic. That will change eventually because there is a public outcry about it. In PPP's the penalties have to be there. The important thing is to incentivise everyone to make it succeed.

Where there's another great mismatch... is about institutional strengthening. You need to keep the institutional strengthening going if you're gonna make this work.

The system just doesn't work because of constraints in most other countries. So, we're trying to get there. Holland is being quite good but it used the same British advisors that Britain used. Ireland did the same. So, there are models going in there....but the real problem the one that we've for ever lecturing other governments, as politely as we can get away with, is that you have to have proper regulation for this to work and that is really difficult. We have all this common law. Which makes it easier to do this. What we must always come back to no matter how we talk PFI and PPP is a contract. It's a lot of contracts. And if you don't have a contract that can sit comfortably with the legal process and the financial process and all the monies of the world in big projects is done in common law and not in codified law.

So, we had this sort of environment to make it work. Wheres other countries have to legislate to do things...we legislate to stop doing things. So, there isn't a law that says you can't do it. You can do it, and it gets very difficult but you actually have got to write laws that will allow you to do all the creative things you've trying to do here. And the banks at the end of the day who will do the project finance, probably here in London no matter what nationality they are, they will probably do it here and it will probably be under AngloSaxon terms basically. So, there is a lot of bits that go in our favour that allowed us to develop our system, that it is more difficult for...I mean...in your own country is very difficult to get through some bits of the legal system....If you take on a fine billion pound long term project you don't want 6 individual engineers say we'll come together. You want somebody you can get your hands on at the end. There are all sorts of different things in different places. So, our philosophy is good and it works here and it can work elsewhere. It's not the panacea for everyone but it is the best starting point of all the others because nearly we have active 700 active running real PFI projects when the rest of the world has got 10-12 between them.

Another point that people at IFSL have done a lot of research is if you have a taskforce basically modeled on what our government did, and we made mistakes by the way, we didn't come up with the right answer we got it wrong and we had to adjust. Taskforce like we've done...which is just what they've largely put together in Australia, in Holland, Ireland... few others... Canada... You can have a programme of PPPs going. In the countries that said we don't need that...they got two or three up and it has all collapsed. So, we come to the economic argument that if you don't do certain things it won't work and if you do certain thing there is a good chance that it will work. And that is not because it is our way... it's the facts of the matter around the world. There is a very clear black and white line between those that follow this route and those that don't.

And we've actually gone further than that, we say that there is not a single country in the world with viable PPP progamme that doesn't have a central PPP task force. They don't have a central PPP task force... they don't have a PPP programe. With no exceptions.

That's a statistical fact not an opinion...Actually they're not a promotional body. That is 3% of it. They are not there to advice people outside.

We had the Private Finance Panel originally which was set up under conservative government and it did quite a lot of work, but part of problem was it didn't have any outhority. It was on advisory group. Only it could advise on best practice. When the Labour party won the election, the PPP programe hadn't really got going. It had been sitting around for three years. They said what we need is a group in Treasury who could actually tell people what to do or more important, if they come up with ideas for a PPP projects, say "No that's a bad idea or it's a good, one, or it could be a good one but you need to go and think about it a bit more."

And the other thing they did they standardized the contracts. Because when we first started to try and do hospitals everybody employed different lawyer writing a different contract... nobody looked at each other. It was hopeless it was chaos. And so it would be much easier if everybody had the same contract and that's one of the new thing that helped us do so many PPP projects.

Partnerships UK care along as the Treasure taskforce was only supposed to last 3 years. It was supposed to get the process up and running providing enough training so that your spending ministries could run things themselves. But they extended its' life and then they realized that perhaps we really do need a central unit. And instead of just having another central unit which is what I think they should have done, they had this strange idea that the unit could be a best practice unit but also it could invest in PPP projects itself. And to invest in projects you would need capital. So, they sold off 51% to the private sector to 10 firms, which I thing its now 9, because two of them become one. And they've done a little bit. Not really very much, but what it means now is that we have essentially a PPP unit which isn't a government unit, it has a mixture of objectives which sometimes contradict. So, it needs to think for it's private sector investors and then it needs to think the government unit. And that's very confusing for foreign governments who are visiting the UK. They think they are visiting the British Government PPP unit which in a way it is. But this unit is a commercial consultants that charges fees to people.

If somebody in the Greek government wants to go over and spend three days at PUK to learn about how to set up a taskforce they can came to IFSL and I can put them in front of the three people who set up the taskforce, run it, read the laws, read the text books. I can do that and they won't have to pay a penny. Or they can go to our government unit, who will charge them. So, it's a strange situation.

But again it's good...because we have a sophisticated economic market that you have alternatives. It's not all this or all that. So, there are alternatives...One of the problems was that there were too many alternatives and too many people getting in on the act. And that confused...

The other thing that IFSL didn't mention is that between the Taskforce and PUK... I mean it is roughly the same thing....it's mission is the same...

When the government changed and the new socialist government who knew all along there was no alternative... there was no plan B... if you don't do PFI, you don't get the schools and the hospitals and prisons. Because there is not enough money there. So, whilst everyone in opposition was saying this is terrible and was nationalized it was only to get elected. When the private sector saw they were accelerating the programme, the private sector said that's it, all of the parties accept it. It's safe now. And that's a real a government lesson to if you want this you get all your parties to agree to the basics and then the private sector will start looking at it. Political risk is such the world now that no private money needs to go to any country. No country is big enough, other than maybe the states.

Also when the brakes were let off... when people saw that all parties was subscribing to the same philosophy everyone was scrumbling to do it. That's the point when we said that everybody was writing their own contracts. It wasn't enough skill it was absolute mayhem. So, there needed to be a central body that said we neeed to edit whether scheme should ever go into this. And that cannot be eery local authority in the country. So, PUK became the body that had a test. Can this be done more economicalls in the public sector that through a PFI. So, all sorts of tests were rational.

And then there was this logic, there's only so many people who can do it. So, we've got to roll it out, and as it rolls out more and more people roll their shirt tails. So, there was a whole business about bringing common sense in to it. And this is the danger... Portuguese roads or bridges is one of those... isn't it?

Yes, I mean in Portugal they did a very good bridge and then they started to do some roads, byt they had no PPP unit keeping on how much they were spending and what they found was that they had commited 17% of their entire highways budget for the entire country for the next 25 years on 12 roads. And they didn't have any money left to do any works on any others. They had to refinance and reorganize the whole deal. This is what's so caluable about having a Treasury here. Having an oversight of what people is doing.

So, people don't have to commit theirselves. You are paying for things on a mortgage essentially... it is like having a creat card bill and somebody needs to be sure that you government authority can pay these bills over 25 years.

That's right. It's only like putting a credit limit on your card.

And you don't spend money that you don't have and you never will have.

If we go back to your first question...what we're doing on exporting the idea ...you could see that yes we think there is a lot of business British firms can win. Yes, we know in reality that 95% of the PPP expertise in the world is here. And it's probably within 2 miles of this point. But, in reality we really believe in this staff. We think it works we've seen it works and we've been able to see people mess it up.

The other part is the incentives that we mentioned. In a traditional government or public sector contract you probably don't get promoted if you fail but that' the worst that will ever happen. If you don't perform in the private sector, you get sacked or your company goes bust or whatever...So, there is an incentive to do things differently to look at risks differently...So...Taking that model the government set around setting up a whole series of performance criteria...So...it's difficult to get good examples of performance requirements...

Let's talk about prisons...Prisons regularly have inspections run by the prison service...however it is called and they would go and visit a state prison and they would say "So many attacks, so many attempted escapes, problems with...whatever". The report was sent to the prison, but there was no mechanism to do anything about it...

But because the private sector is working to certain standards set by the prison service that it has to achieve... you know staff shortages, attempted escapes, and number of hours of education per day or per week. If it doesn't achieve those and has a negative report the amount of money it is paid is cut. And the banks financing that business... they are much tougher than any government minister because they are changing credit rating... So, bizarrely, the banks who are funding the private sector actually become the public sector's best friend and best ally.

So, you have got these incentives. So, you don't get paid automatically for providing a school or a prison or a hospital. You get paid a certain amount for providing the basic facility, but you... let's say... the lights if they go out they have to be replaced in 20 minutes...You can't use some part of the building... If after 20 minutes the lights aren't replaced, you will lose a whole of a piece for that part. Because you can't miss the fact that the lights are not working... somebody can't operate or whatever.

So, it's really... It can be quite strong penalties...if you don't meet these targets. So, the whole thing is all set up about achieving the targets. So, also you end up using better materials because you've got to maintain it. You don't use the cheapest possible materials. If you're putting the light fitting in and you know you've always got to have the lights on, you'll put decent equipment in and you will not wait until they go out you will replace them very 20 months or whatever it is. So, that it never happens.

The whole thing is in a completely different basis. About performance and the fact they can penalize you. The state....they can't penalize the system. The governor of a prison would simply say I haven't got enough money to attract any more staff. But, what if the government... if they haven't got any more money to give them.

The private sector doesn't have that excuse. You said you would provide enough people to do it. What their doing in the state prison, if they don't have enough staff they lock people up for longer. Which is worse you cannot do that in the private sector.

And it's not about the people; because the people who are running the private sector prisons used to work in the state prison. Almost without exceptions it's not the people.

But they don't do the same collective bargaining nonsense and so on they have better more flexible terms of employment.

So, the whole thing has been made so that everybody wants it to succeed. And those, and there are some that tend to knock it quite hard on this country are doing if for ideological reasons. They are either Marxists and they hate this or... You know... they just hate anything in this capitalist world. And that's just unfortunate. Or they tend to be people who want to knock government about something else and they use "Ah, see that tile fell out of the school, they don't tell that the state one doesn't have a roof on it.

So, they tend to exploit the situation. The truth is...and it's all audited. You know we have the NAO who report to parliament, not the government. That is a fundamental thing. If you have a proper regulatory auditor for your country and you going down this route you must have somebody who reports not to the government, so they can suppress it, but to the whole elected body, where it can't be suppressed.

We have these mechanisms in place that the government can't, they try hard, the governments to do that. They try hard to suppress things, but the truth is we have an open press, we have an unconstrained regulatory system and they can't hide things for very long. It comes out. That's the type of thing that you need elsewhere to make this work.

And something else...that's quite important. Less than 17% of government spending is now in PFI. So, we're not mortgaging the future like some tabloids would tell you.

The history has shown that whenever people in public sector body transferred to the private sector one of the first things they do is cancel their union membership. Because the unions to them are only useful because they get cheap car insurance, cheap private medical care, they get discounts. Most the private sector firms finally find out that they get these as part of the package. And think why I'm paying all these extra money to the union. And they cancel that all the time. So unions worry about their fees and such...

But you do need to have them there... if they weren't there... the private sector would tend to take advantage of lower paywork more that it does. You need a balance. You need responsible unions as opposed to irresponsible unions. Not those who are there for a dogmatic approach but those that are there to protect genuinely the welfare of their members.

The reason I say this is that the whole thing is about balance... and every country has to open up its mind. Any country that wants to succeed in its PFI programme has to be pragmatic in its approach. Because the private bit of private is the management in the capital and these two don't care whether it's Britain, Greece, Ireland or whatever it is. They'll only you where people play by their roles. And if the country doesn't so the plane will fully with the money over to the next one. So.....

One of the things we make quite clear. People think that of they just go for a PPP rout they say "Oh, we can have a PPP hospital they think the private sector internationally just will come and interest in it. And they don't care whether it is or not. If it is a good deal they'll invest; if it is not they won't.

And most private firms are interested in the whole programme. There are very few by international companies that will come to India to bid one project. IF they though there were a million projects in India and maybe they could get a hundred out of them and the reputation would be at stake soon then they would look at it. If it is one off it's just not worth it; the set up cost, the management investment and so on. So there is a whole lot of sensible things...

If you look at the big operator firms here if they've doing really well they reckon that they win one in three one in four contracts the bid on. And given that the average cost of the PPP bid is a million pounds then they've really got to be careful about when they bid and what their chances are.

There is not any corruption or any lack of transparency in the whole process. That's the other thing: the very transparent process. We've meeting one of the ministers of Kazakhstan here on Wednesday which is about our 4th meeting between our groups. They are really interested in PPP although they've got lots of problems because they've got the legacy of massive KGB corruption in their country. And they read a bit about transparency and they have a real genuine desire to provide world class primary education, secondary education up to 17 years and so on. What they want is the management and the transparency to introduce these things.

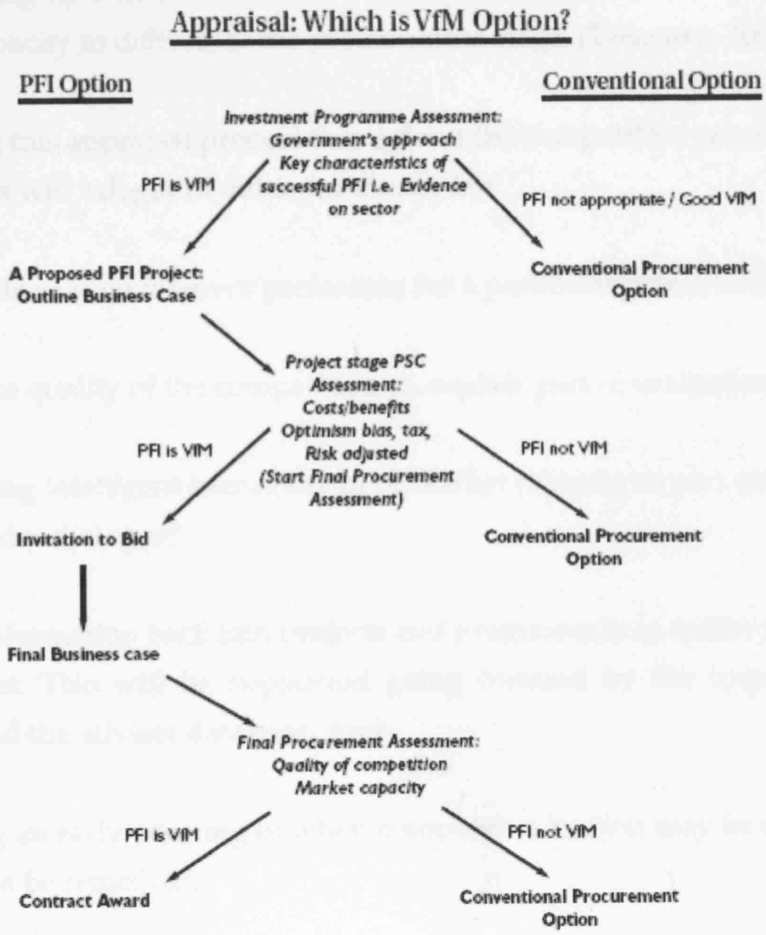
But a lot of this does work when we do it quite a long term. We know that you're not looking at instant results. We know we've been working in some countries for 5-6 years and still nothing has come out. It's a matter of taking a long term view, governments might change, other things might change...

But if we can get all of different colors of government in this country thinking positively. There's a huge chance of some success.

Appendix B

The Government proposed a new reformed 3-stage procedure (Chart) which is illustrated and analysed below:

CHART Three Stages in Value for Money Appraisal



(Source: Treasury, 2003)

Stage 1: instituting a new assessment of the potential value for money of procurement options when overall investment decisions are being made in the context of the Spending Review, to ensure PFI is only used when it is the best option and has a good prospect of offering value for money;

Stage 2: reforming the PSC into an early, rigorous economic appraisal of an individual project at the outline business case stage prior to involving the private sector, to allow projects to proceed down alternative procurement routes where they offer value for money; And

Stage 3: setting up a final assessment of competitive interest in a project, and the market's capacity to deliver, at the procurement stage. (Treasury, 2003)

By applying this appraisal process throughout the competitive process, public sector clients will safeguard value for money by:

• ensuring there is no inherent preference for a particular procurement option;

• making the quality of the competition an explicit part of evaluation;

• encouraging intelligent management of market capacity as part of procurement and pre-tender dialogue;

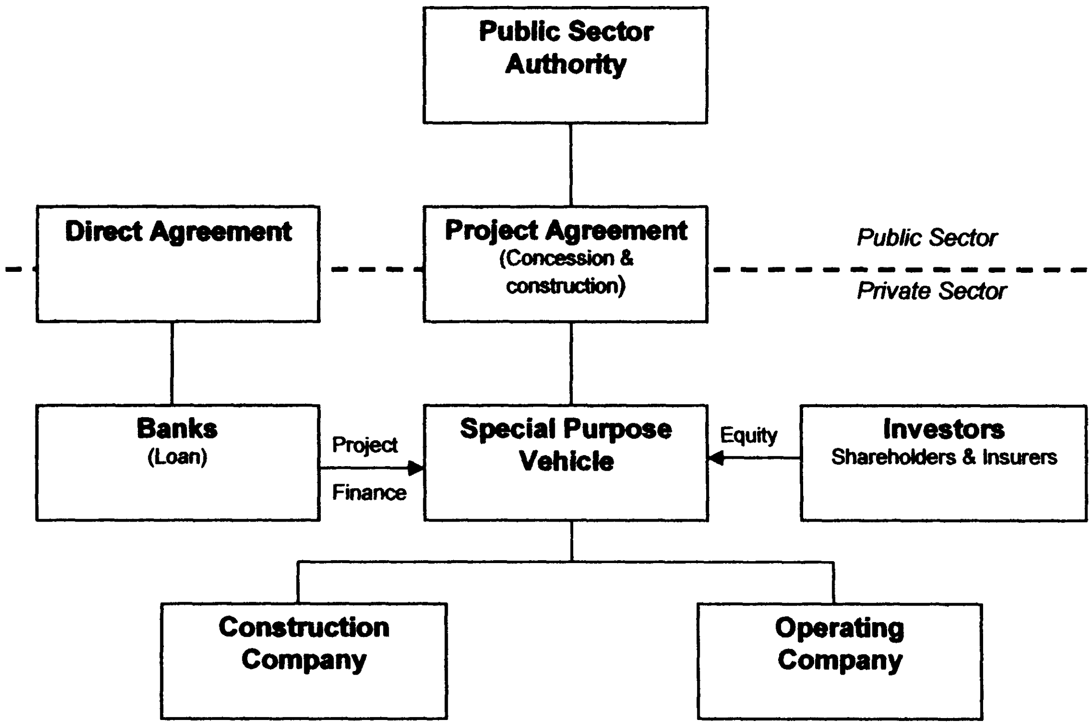
• feeding information back into projects and programmes in earlier stages of procurement. This will be supported going forward by the improved signed deals list and the adviser database; And

• providing an early warning of when competitive tension may be reducing, and how this can be remedied.

"PFI procurement will only be pursued if these assessments show that it will deliver value for money."

Appendix C

The main contractual elements of a PFI are listed below with the key aspects of a typical project structure shown in Figure. The new business that is often created as a Special Purpose Vehicle (SPV) is similar to any other start-up, involving a number of key agreements and contracts:



- The Concession Agreement governs the supply of services by the new business to the public sector user and would include service level agreements and the payment mechanism.
- The Construction Agreement will usually be a fixed price, turnkey contract over a specified period, in which the contractor assumes all construction risks.
- The Facilities Management Contracts for operational and maintenance services will usually be subcontracted by the new business, often from subsidiary companies of the parent shareholders. The private sector then bears most of the risk of providing these support services.
- Shareholders' Loan and Insurance Agreements relate to the financing provided by equity and debt, the latter from either bank loans or bonds from institutions, while cover for insurable risks is borne by the insurance market.
- The Direct Agreement regulates the relationship between the public sector and the lenders, as the loan agreement is financed by the cash flows arising from the supply of the service.

(Source: Harris Working Paper)

Appendix D

INTERVIEW- Public Private Partnership's Programme (4Ps)

A. Brief introduction to the aims and value of this report

- Many countries have enthusiastically adopted PPP/PFI as a more efficient and effective means of delivering public services.
- Others are also considering its introduction.
- This report will attempt to provide an overview on the process followed by foreign delegations in their attempt to gain an understanding on PFI and benefit from UK expertise, as well as contribute to improving this process further.
- Over the last 13 years UK PFI has generated a large experience (codified, formal or published) body of guidance literature.
- There is also a small industry of professional PFI advisors, operating mainly at a project-specific level.
- However, it is clear that foreign governments and agencies also receive substantial amount of implicit policy advice from those UK experts whom they meet on visits to UK
- The aim of this research is to add to our understanding of the content of that implicit knowledge.
- It is hypothesized that a relatively small number of UK experts receive most of the visiting delegations.
- We believe that is valuable to transform some of this informal advice into something more formal and explicit, thus, gain a more rounded view on enquiries and advice about PFI, building upon each expert's views and advice.
- The PPP Export Advisory Group has already made the first step to co-ordinate international enquiries and "How to Access UK Expertise in PPP" publishing three reports, by British Consultants and Construction Bureau, International Financial Services London and UK Trade and Investment.
- Our research, thus, aims at building upon the above set of report.

B. Principal questions

1. **Could you please indicate the number of foreign delegations that have visited "Public Private Partnership's Programme" (4Ps) in order to provide advice on PPP and PFI?**
   - What level of seniority are they typically?
   - How long do they typically stay?

2. **Is "Public Private Partnership's Programme" (4Ps) normally one of the first organisations that a foreign delegation interested in accessing UK expertise visits and why?**
   - If not, which is and which should be, in your opinion, the public, private or Government organisation or department to be first visited and why?

3. **Which is the most usual sequence of meetings when foreign officials visit UK?**

4. **Is there a standard format for the way that you host such a delegation?** (i.e. according to the officials' background and the organisation they represent)
   - If no, how do you prepare and structure a visit?
   - How often do you tailor a visit entirely for a delegation/ foreign official?

5. **What are the most frequently asked questions to "Public Private Partnership's Programme" (4Ps) by foreign officials?** [e.g. a) Why should public authorities consider PFI and what benefits does it deliver b) what are the prerequisites of successful PFI programme.] !! Do not lead the question!!

6. **What do you understand are the foreign officials' preconceptions of what the main issues are?**

Additional question[1]: Are foreign delegations concerned with why should they consider PFI to provide public services and, thus, what benefits does PFI delivers?

7. **Which issues are considered as most important by "Public Private Partnership's Programme" (4Ps)? What kind of formal or informal advice do the foreign officials receive from the 4Ps on these issues?** (e.g. critical success factors, criticisms and concerns and major challenges to overcome)!! Do not lead the question!!

[1] If not already included or clear in previous answers some additional questions have to be made or in case that our intention is to lead the conversation with more specific questions

Additional question: What do you consider as prerequisites of a successful PFI programme according to the UK experience and what is your advice to foreign officials on the specific subject?

Additional question: What factors are critical to the success of a PFI project or what are the characteristics of a successful PFI according to *"4Ps"?* To which of these do you advise foreign officials to pay special attention?

8. **Assuming that it is in a delegation's concern: What would you say are the main lessons that the UK has learned from the development of PFI?** [see guides (central reorganisation (PUK, 4Ps), project focus, removal of technical obstacles, flexible approach to PFI)] !! Do not lead the question!!

Additional question: What advice do foreign delegations get from *"4Ps"* about what are the major challenges to overcome in establishing PFI schemes in other countries?

9. **Is there a "best way" for this process of advice-giving to take place?** For example should there be a first approach from the central Government of a foreign country before forming its PFI policy and then separately from various departments and ministries or vice versa? (i.e. PFI should be first explored in sectors and projects that seem to be more appropriate and successful before widely introduced)!! Do not lead the question!!

10. **Is there any concern or discussion on the challenges that the private sector faces under the new circumstances and the skills required for the sector to respond to these challenges?**

C. Concluding questions

- **Given that this research will hopefully capture a range of experiences and opinions relating to visits made by foreign delegation, how would you like the research findings to be drafted so as to be of greatest value to all those concerned?**

- **Which organisations do you suggest I should contact, particularly at a cross-sectoral level?**